

DIGITAL TELEVISION IN ITALY: FROM DUOPOLY TO DUALITY

CINZIA PADOVANI

Abstract

This paper analyses the impact of the digital transition on the television industry and market in Italy. A major concern for those interested in issues related to social cohesion and the impact of the digital transition on democratic practices is the fact that digital television platforms continue to produce a polarised market. Indeed, in Italy we are witnessing a shift from “duopoly,” a condition that has characterised the analogue television market, to “duality,” where quality TV content is migrating to pay-TV, leaving programming of lower quality on free-to-air channels. Given the fundamental function that television has played in shaping Italian democracy, the question is how this mutation from “duopoly” to “duality” will inform the evolution of democratic practices in the country. The study includes an investigation of media legislation, an analysis of the digital television market, and an exploration of the public broadcaster’s struggle to maintain a relevant role in the digital environment. It concludes that the determination of the legislature to break down the duopoly is important, but that more government intervention will be necessary in order to ensure that quality free-to-air television becomes universally available.

Cinzia Padovani is based in the Southern Illinois University Carbondale; e-mail: padovani@siu.edu.

Introduction

In this paper, I look at the transition to digital television (the so-called digital switch over) in Italy and analyse the impact of this transition on the industry and the market. Although the full consequences of the transition are still to be determined, there appears to be little innovation in terms of content and programming formats, at least on free-to-air Digital Terrestrial Television (DTT) and on free direct-to-household (DTH) channels available on satellite television. Therefore, some questions arise: Who, if not the audiences, will benefit from the digital switch over? What else, if not better programs (i.e., innovative, original, provocative), will make digital terrestrial television (or free satellite services) a beneficial change for the viewers?

It is also important to consider the consequences of the digital switch over on public service broadcasting (PSB). On one hand, in Italy, as elsewhere, some critics argue that with the advent of unlimited channels and digital television, one of the most commonly held rationale for public service broadcasting (i.e., the scarcity of the hertzian spectrum), will no longer exist. On the other hand, scholars and media analysts (Richeri 2003, 2004c; Sartori 2006; De Chiara 2006) have long advocated for a stronger commitment of public funds to make sure that public service broadcasting will continue to maintain a central role, or at least “become an actor in the switch over to digital transmission” (Richeri 2003).

Although TV is an industry, it is not only an industry. Referring to the digital switch over, Carlo Sartori, president of RAI Sat, one of the public broadcaster’s content provider for premium satellite channels, notices that:

[A]lready the first decline of generalist traditional television caused by satellite television has created a social divide... . The question we need to ask [now] is: who will take care of the most impoverished socio-cultural strata, by providing them with quality products, rather than with trash TV? (Sartori 2006, 165)

Obviously, television is a crucial asset for democracy and indeed its importance in society could be equated to that of the school and health care system, or the administration of justice. These are some reasons why, as Sartori explains: “Television, which owes a lot to the market, cannot be left entirely to the market” (Sartori 2006, 165).

Indeed, from a broader point of view, at stake is nothing less than the future quality of Italian democracy, which RAI (Italy’s PSB), and television in general, have already shaped in some fundamental ways. What might be some of the consequences of Italy’s historical conditions (the duopoly in the analogue broadcasting market with RAI and Fininvest/Mediaset, and the long connubial between media and political powers), and of a tepid post-political opposition (a sort of duopoly, reproduced in the political system), on the ways in which the new digital TV scenario will be structured? What will be the consequences of that restructuring on the functioning of democracy in Italy?

In order to provide some answers to these questions, I will approach the study of digitalisation of the Italian television industry using a three pronged approach, which includes: 1) an investigation of some of the most relevant pieces of media legislation related to digitalisation; 2) an analysis of the characteristics of the televi-

sion market; and 3) an exploration of RAI's efforts to impose its presence and its brand in the digital environment.

As various scholars have already pointed out (Perrucci and Richeri 2003; Richeri 2000a; Marzulli 2006), digital television platforms tend to produce a polarised market. Whereas valuable content (in particular, first release films and popular sports events) gravitate towards pay channels, programs of lower quality, produced with small budgets (minor sports, talk shows, old films and reruns), tend to migrate to the free-to-air DTT channels (as well as free DTH channels). In fact, in the Italian television panorama, we are witnessing a potential shift from "duopoly," a condition that, since the mid 1980s has characterised the analogue television market, to "duality," a situation where quality TV content is migrating to subscription and pay-per-view (PPV) platforms, leaving the free-to-air DTT channels with programs of lower quality. Given the fundamental function that, since its early days, television has played in shaping Italian democracy, the broader question to consider is how this mutation from "duopoly" to "duality" will inform the evolution of democracy in the digital era.

The Legislative Framework

In Italy, the alliance among the political elites, the government of the day, and some of the most powerful sectors of the media industry, achieved an apex with the law of 3 May 2004. That law was supposed to govern the transition from analogue to digital television, but instead paved the way for the duopoly in the broadcasting market to continue unabated and to cast its shadow over to the future digital environment.

Pluralism and Democracy

In order to understand how the Gasparri law (as the May 2004 law is called, named after the Berlusconi's government Communication Minister, Maurizio Gasparri) was able to circumvent prior attempts (in particular, those of the Constitutional Court) to break the decades long duopoly in the TV broadcasting market, it is necessary to first briefly trace the history of the legislation dealing with television broadcasting. Indeed, the list of post-2000 Constitutional Court decrees, Communication Authority decrees, and the long and tortuous itinerary of the Gasparri law (first proposed to the vote of Parliament in September 2002 but signed into law only in May 2004), are intrinsically connected with previous legislation in some important ways.

For decades (certainly since the 1980s), the Italian legislature has made timid attempts to curb the television duopoly. Although ample lip service was paid to stating that media pluralism is essential for democracy, little was done to ensure that external pluralism (a plurality of media sources) would become a reality, and in fact, the duopolistic television market continued to undermine the very foundation of democratic life (i.e. the citizens' right, sanctioned by the Italian Constitution, to be informed in a pluralistic media environment).

Concerned with the unconstitutionality of some of the legislation that has governed (or, as some say, "photographed") the evolution of media in Italy since the late 1970s, the Constitutional Court has made the question of media pluralism one of its main focuses. In the late 1970s and throughout the 1980s, two forms of

pluralism were given particular attention by the high court, i.e., external pluralism and internal pluralism. The former indicated the necessity to ensure a plurality of media sources, while the latter served the purpose of justifying political quotas within RAI. It was observed that a simple multiplication of broadcasters (as when national commercial broadcasting became a reality in the early 1980s) would not, in and of itself, guarantee external pluralism. Indeed, faced with the consolidation of the duopoly market, in 1988 the Constitutional Court warned that pluralism could not be fully realised unless access to the means of communication was guaranteed to as many voices as it was technologically possible, and only if there was a “concrete possibility within the commercial broadcasting sector, for those who have different opinions, to express themselves without the danger of being marginalised because of concentration of technological and economic resources in the hands of one or few” (Constitutional Court 1988, Art. 11).

As history demonstrates, however, lawmakers rarely embraced the recommendations of the Court. In fact, a television law enacted in 1990 did nothing more than to legitimate the existing duopoly by setting the anti trust limit to “25 percent of all national TV channels, or three channels,”¹ exactly the number of channels owned respectively by the public and the commercial broadcaster.

The consequences of the 1990 law showed their full devastating potential for the Italian democracy when Fininvest’s owner, Silvio Berlusconi, entered the political arena and, significantly through the support of his media empire, became Italy’s prime minister in 1994. Regrettably, the conflict of interests that he so perfectly embodied was never regulated. Not even the law passed by Romano Prodi’s centre left government in 1997 (the so-called Maccanico law) was able to resist the pressing commercial and political interests of the private broadcaster. On that occasion, the legislature made only small, and overall insufficient, attempts to curb the duopoly by lowering the anti trust limits (from 25 percent as the previous law had established, to 20 percent), while at the same time envisioning a migration to other platforms (satellite TV) for those channels exceeding the threshold of 20 percent. However, the law ostentatiously failed to establish the date by which each of the dominant broadcaster would have had to get rid of one of their analogue channels.

The lack of pluralism remained a concern. In 2001, the Communication Authority established a date, 31 December 2003, by which one of the three channels in breach of the 20 percent anti trust limit would have to migrate to a digital platform (Resolution 346/2001). One year later, the Constitutional Court (Decree 466/2002) confirmed this deadline, which, however, was never respected.

By the early 2000s, with Silvio Berlusconi elected prime minister for the second time (2001-2006), the lack of media pluralism had become such a major problem for those interested in the conditions of the Italian democracy that the Italian President addressed the lower and upper house of the Parliament on two occasions (July 2002 and December 2003) to express his concerns. In his second address, delivered after the Parliament had voted favourably on the law proposed by the Berlusconi’s government in September 2002 (the future Gasparri Law), President Carlo Azeglio Ciampi urged the lawmakers to revise the proposed law because it failed to honour the 2002 Constitutional Court decree, which demanded that analogue channels in excess of the limit be sent to the digital platform. Lawmakers argued that this

migration was no longer necessary because other competitors could enter the television market through digital platforms. President Ciampi, however, did not believe that the progress with digital television (especially in terms of universal coverage and diversity of programming) was sufficient to justify this position, and emphasised that only when a sufficient number of households were able to access digital terrestrial television, would the promise of enhanced pluralism in television broadcasting be realised.

In spite of strong opposition, the Gasparri law was passed on 3 May 2004, without substantial modifications. One of its most controversial points was its new definition of anti trust limitations, which allowed the 20 percent anti trust limit to be calculated on the basis of the entire media market (“printing press, ... electronic publishing, including INTERNET, radio and television, cinema, ...and ...[all aspects of] advertising”),² as opposed to just the television market. This cleverly circumvented the intent of the 20 percent limit set by the 1997 Maccanico law (which would have forced RAI and Mediaset to move one of their channels to a digital platform), thereby allowing the duopoly in the analogue market to continue unfettered.

A New Law

In October 2006 the newly elected centre left government led by Romano Prodi proposed a new law, which, according to its supporters, would not only serve to significantly weaken the existing duopoly, but also prevent it from re-emerging in the digital environment. This proposal also represented a politically important step in responding to the European Commission ruling of 19 July 2006, in which the Commission had decreed the Gasparri law illegal. Specifically, the Commission argued that the law violated European Union (EU) competition directives by providing unfair advantages for existing broadcasters and imposing unfair restrictions on new operators.

The proposed law of Fall 2006, whose parliamentary debates are expected to last for at least a couple of years, contains some important novelties. *In primis*, in its analysis of what constitutes the digital television market, the legislature takes into consideration all digital TV platforms, not only digital terrestrial television. The law also establishes new anti trust limits: until complete conversion to digital television is achieved (scheduled for November 2012),³ the antitrust bar is set at 45 percent of the entire advertising revenue for the television sector (including both analogue and digital). The law also requires TV broadcasters owning more than two national analogue channels to transfer their exceeding channel(s) to a digital platform by 2009 (Art. 3, para. 4). After full digitalisation, content providers for the national television market would be forbidden from utilising more than 20 percent of total transmitting capabilities (Art. 3, para. 8). Another important innovation is the legislature’s determination to break down one key element of the vertical integration chain: content providers (the owners of the channels) and network providers (those who manage the network and the frequencies) would have to separate (Art. 3, para. 7). This, according to the proponents of the law, should encourage new firms to enter the TV content business.

A New Reform Law for RAI

As part of Communication Minister Paolo Gentiloni's plan to restructure the media system, there is also a proposal to reform the public service broadcaster:

- *Programming*: given its high dependence on advertising revenue, RAI has gradually become less distinguishable from its commercial competitor. The reform would fundamentally change RAI's funding structure in order to create more distinct public service channels;
- *Technology*: RAI should invest more on new technologies and become a "protagonist of technological innovation" (Gentiloni quoted in Valentini 2006);
- *Independence*: RAI's leadership should become less dependent on the government of the day.

According to Gentiloni's plan, the incidence of advertising revenues for RAI must diminish. One hypothesis is that one channel becomes completely funded with advertising money and competes in the market on the model of the British Channel 4; whereas the other two channels – likely RAI1 and RAI3 – become solely funded by the license fee and other public funds. But with the crisis of channels like Channel 4, which many critics complain has gone "totally commercial" – and without more precise ideas on where those other public funds should come from – one wonders if this plan to take away advertising revenues would leave RAI languishing in a "public service ghetto." According to the proposal, RAI is also supposed to be a leader in technological innovation. But how, if its license fee has not been even adjusted for inflation during the five years of the Berlusconi government (2001-2006), is RAI supposed to do that? The centre left Prodi government promised to adjust the license fee for inflation, but nothing more.

Setting the Stage

The Development of Digital TV in Europe

Now that the legislative framework has been detailed, I will contextualise the analysis of the Italian digital television market by describing the development of digital TV in Italy, and more generally in Europe. According to the most recent Annual Report from Italy's Communications Regulatory Authority (AGCOM), total revenues from the Television sector in Italy grew by 7.8 percent to a total of 6.9 billion euros in 2005. While this was slightly lower as compared to the previous year's growth (10 percent), it was well in line with the overall 7.6 percent increase for Europe as a whole. It is also interesting to note that the television sector in Europe continues to grow at a robust rate in spite of the overall weakness in the European economies. For example, the 7.8 percent growth of the sector in Italy for 2005 was nearly 4-fold higher than the overall 2 percent growth in GDP for that same year (AGCOM 2006).

The major source of revenue for the current growth of the TV markets in Europe is pay-TV services. According to data in the AGCOM 2006 Annual Report, of the 5.5 billion Euro increase in television revenues for Europe in 2005, 78 percent (4.3 billion) came from increases in consumption of pay-TV offers; 70 percent of the observed growth in Italy came from the same source.

It is also important to look at sources of revenue for the television sector on an absolute basis (i.e., as opposed to growth). Although advertising continues to

represent the main source of revenue for the television industry in Italy, the share of total revenues from this source has steadily declined from 63 percent in 1998 to 57 percent in 2005 (AGCOM 2005, 2006). During the same period, the share of total revenues enjoyed by providers of pay-TV has increased dramatically from 8 to 21 percent (AGCOM 2005, 2006). Furthermore, with only 70.2 million (42 percent) of Europe's 165.5 million TV households accessing digital platforms, there is still ample room for further growth in the digital pay-TV market.

The Italian Digital Market

Although generalist TV channels in Italy still command the majority of national audiences and revenues, it is clear that their supremacy is diminishing. Indeed, a conspicuous audience decrease (a 5 percent drop during prime time in the Fall 2006 season and a 6 percent decrease in the average day for the month of December 2006 compared to December 2005) points to a steady decline (Siliato 2006a, 2007). According to media analyst Francesco Siliato, for the first time in twenty years, in 2006 the growth of the TV sector was below the market average. Italy is still the European country whose television sector weighs more than all other media compounded in the advertising market, but that weight has dropped from 56 percent in 2005 to about 53 percent in 2006 (Siliato 2007). A variety of factors are responsible for this decline. As noted by various analysts and media scholars (Richeri 2004b, 2003; Pilati 2004), the growth of pay-TV services, which brings with it the fragmentation of audiences, is one major reason.

According to some, Italy is in a phase characterised by a "limited multichannel environment" (De Chiara 2006), where the offer of PPV and subscription-based DTH channels hasn't fully developed yet. The next phase, experts say, will be characterised by a combination of the following factors: concentration in the pay-TV sector (with one dominant operator, Sky Italia),⁴ the transition from analogue to digital television, and new platforms and audiovisuals distributed by broadband and mobile telephones (De Chiara 2006).

In this environment, the public service broadcaster is probably the one most in danger. Given that its audience (still its main resource) is gradually eroding, RAI will have to capitalise on other resources in order to take on an active role in the multichannel and multiplatform audiovisual markets. Indeed, the future of public service broadcasting, in Italy as elsewhere, will play out around the kind of strategic positioning that PSBs may be able to negotiate. From this perspective, the turn to digitalisation is not just a necessary step dictated by the industry and technological developments; rather, the new digital environment could potentially represent a very valuable opportunity for the public broadcaster to re-evaluate its role and "to restructure the company and its share capital" (Mele 2006). However, the question is: What is RAI doing to take advantage of this opportunity? Clearly, given the increase in the number of channels, the production cost of content for TV has risen considerably. Nevertheless, content is the key to staying in the game: indeed content has become, as two representatives of the Italian Communication Authority write, "the genuinely scarce commodity that is decisive for competition" (Pilati and Poli 2001, 197). Content is crucial, and indeed the public broadcaster should become more "product-oriented" rather than "market-oriented" (Siliato 2005). If RAI is not investing – or cannot invest for lack of resources – in contents

to put on its free-to-air digital channels, how is it going to compete and how is it going to justify its public service remit?

It is also very important to underline that the production of content should not only be realised for DTT but for all digital platforms. Indeed, the future of the entertainment industry, in Italy as elsewhere, is in the production and supply of media content for multimedia platforms. In this regard, it should be noted that Italy is a major telecom market, characterised by a significant presence of mobile, broadband, and digital TV. Although cable TV shares an irrelevant portion of the market, the nation's fibre sector is an innovative leader, providing consumers with competitive and fast broadband infrastructures. This has opened the door for the growth of triple play services: Internet Protocol Television (IPTV), Video on Demand (VoD), and Internet telephony. Italy has the world's largest DSL service, Fastweb, which has grown from 5,000 customers in 2000 to 800,000 in 2006. Also, in December 2006, after years of negotiations between the Communication Minister and the Defence Minister, the Worldwide Interoperability for Microwave Access (or WIMAX) became available. This is a standards-based technology that has the potential to circumvent the monopoly over the "last mile" (which is a terrain of intense struggle among the old monopolist – Telecom Italia, and the new incumbents – Tele2, Infostrada, etc.). WIMAX is supposed to provide wireless broadband access thereby offering a valuable alternative to other more expensive broadband options.

Resources and Programming Outputs

In an environment where advertising revenues are slowing, it would appear that the only potential for increase is linked to interactive advertising forms in the digital television market. But – Richeri underlines – "it is still too early to predict if new forms of advertising will be a niche or mass forms" (2003). At the same time, it is not likely that license fees, historically the other major source of revenues for most European TV markets, might increase. As a result, "television programmes' average investment per hour cannot remain at the present level and at least for the new channels, it might be necessary to lower it notably, thus creating a risky process of television programming quality reduction" (Richeri 2003). In fact, the available resources to make programs will be concentrated "on a limited number of attractive genres (film and sport) [whereas] the remaining resources [will be allocated] to the other channels" (Richeri 2003). This creates a difficult situation especially for the public broadcaster, which cannot count on either increasing license fees or increasing advertising revenues. Richeri's analysis is supported by most recent trends highlighted by Claudio Cappon, RAI Director General:

- In the years 2004-2006, the license fee has not been increased. This by itself, "'weighs' 70 million euros, the budget of a whole channel (RAI2)" (Cappon quoted in Mele 2006);
- The cost of the infrastructures absorbs the increases, far smaller than those of the past, of advertising revenues;
- Rights for sport, cinema and fiction (the most valuable content) represent 1/3 of overall programming costs for the public broadcaster (Cappon, quoted in Mele 2006).

As RAI top buyer, Carlo Macchitella admits, “the crisis of ideas and creativity has deepened” (Zecchinelli 2005) in the Italian television market. “[W]ithout resources,” Cappon insists, “RAI has difficulties realising content of value for DTT” (Mele 2006).

The Polarisation of the TV Market

Some European governments, the Italian one among them, have been particularly supportive of the development of a free-to-air DTT sector as an alternative, or an addition to other digital delivery technologies. For its supporters, DTT brings many advantages, of which the most important are:

- A more efficient use of the hertzian spectrum;
- The opportunity to introduce the so-called t-government (e-government via television) in all households;
- Better broadcasting quality and more channels.

Those concerned with the social divide and the exclusion that a pay-TV environment might generate, support the development of DTT as a “natural” continuation of the generalist broadcasters of the analogue era, with the potential of providing a platform of quality channels accessible to all:

[T]here is a fundamental opportunity offered by DTT. It is the possibility to solve, once and for all, the problem of the quality of television content.... With more channels available, there will be room for high cultural [channels] as well as for contents more in tune with mass interests. The TV system in its whole will guarantee that all interests representative of the culture of the country will receive the same treatment, will have the same dignity (Sartori 2004, 48).

The problem, however, is that DTT is taking off rather slowly. This is supported by the data in Table 1, which shows that of all of the digital households in European countries, a clear majority has chosen DTH (i.e., platforms giving access to pay-TV) as opposed to DTT. In Italy, where 43 percent of the TV households were digital by the end of 2006, only 15 percent (i.e., about a third) had chosen DTT, and industry leaders say that only a small portion of DTT households actually ever access DTT channels (Siliato 2006a, 2007). It certainly needs to be said that the choice of subscription based DTH over free-to-air DTT might in part be due to a lack of availability of DTT (DTT developed later than satellite TV). However, if this were the case, we would expect to see consumers drifting away from pay-TV as DTT becomes more universally available over time. To the contrary, consumption of pay-TV continues to grow dramatically. According to AGCOM (2006), in 2005 revenues from pay offers in Europe and Italy increased by 20 and 32 percent respectively. Clearly, something other than a crisp picture is attracting consumers to DTH; namely, content.

Table 1: Percentage of Digital TV Households in Europe by Country (December 2006)

Country	Digital Platform	
	Any	DTT
United Kingdom	77%	30%
Norway	57%	0%
Finland	57%	29%
Ireland	56%	0%
Sweden	53%	19%
France	44%	12%
Italy	43%	15%
Spain	40%	16%
Malta	34%	3%
Germany	32%	5%
Cyprus	30%	0%
Netherlands	29%	3%
Iceland	29%	0%
Denmark	28%	8%
Austria	25%	2%
Luxemburg	24%	1%
Portugal	19%	0%
Switzerland	18%	2%
Belgium	13%	3%
Greece	10%	1%
All	42%	12%

Source: Author's elaborations on data from e-Media Institute (e-Media 2007a).

Free-to-air DTT vs. Pay-TV

According to research done by e-Media Institute (2007b), there were a total of 298 digital TV channels available at the national level in Italy as of the end of 2006. However, of these, a full 100 defy characterisation by any genre and are therefore simply classified as "other." Given that these channels (e.g., religious, local and regional interests, home shopping channels), are provided free of charge and are widely available on all delivery platforms (34 on free DTT and 92 free on DTH), it is unlikely that they serve to drive consumers' decisions regarding platforms. As such, all of these channels will be eliminated from the following analysis, which seeks to identify differences in programming genre according to various platforms. As seen in Table 2, of the remaining 198 national channels, 181, 53, and 62 are available on DTH, DTT, and IPTV platforms, respectively. And if we further stratify these according to business model, we see that 72, 40, and 23 of these channels are offered free of charge on the DTH, DTT, and IPTV platforms, respectively.

Table 2: Number of National Digital TV Channels (of definable genre) in Italy by Business Model and Delivery Technology (December 2006)

Platform	Business Model				
	Free	Pay	PPV	VoD	All
DTH	72	103	9	0	181
DTT	40	4	12	0	53
IPTV	23	38	1	2	62
All	77	108	14	2	198

Source: Author's elaborations on data from e-Media Institute (e-Media 2007b).

Although there are nearly twice as many free DTH channels to choose from as compared to free DTT (72 vs. 40), as seen in Table 3, the overall trends in the proportion of channels according to genre are – with few notable exceptions – very similar. Specifically, free DTH brings consumers 15 “adult only” channels as compared to zero on free DTT, as well as relatively more “culture and education” channels (7 vs. 3 on DTT), and one “entertainment” channel.

In contrast, a comparison between content available on free DTT and that available on Pay DTH (i.e. satellite subscription services), reveals dramatic differences (see Table 3).

Table 3: Number of Digital Channels in Italy by Genre (December 2006)

Genre	Business Model/Platform		
	Pay DTH	Free DTH	Free DTT
Sport	19	5	4
Entertainment	18	1	0
Kids/Teens	14	1	1
Culture/Edu	11	7	3
Movies	10	1	1
Music	9	9	6
Adults Only	8	15	0
Travel/Hobbies	6	0	0
News	5	10	8
Generalist	2	21	15
Finance	1	2	2
Total	103	72	40

Source: Author's elaborations on data from e-Media Institute (e-Media 2007b).

This data vividly illustrates the polarisation of the market into those who can afford quality programming (Pay DTH) and those who cannot (free DTT).

Although there are no available data indicating which social and economic classes are likely to purchase pay-TV services vs. DTT, it is reasonable to speculate

that this polarised market might reflect, at least in part, the country's economic conditions. Indeed, Italy is ravaged by a rising cost of living, a structural decrease in effective demand, and by unemployment rates that are decisively higher than the average in the EU (ISTAT 2006). The Italian economy registered only tepid increases in the first half of the 2000s, and although there were signs of improvement in the first quarter of 2006, in the previous four years the country's GDP grew at a very low rate (0.4 percent on average per year). All components of a weak demand seem to have contributed to the lack of economic performance in a country whose income distribution is one of the most unequal in Europe; one that is characterised by an increasing number of households that struggle to get from pay check to pay check (11.7 percent of total households, or approximately 7.6 million people, were categorised as "relatively poor" in 2004) with the highest incidence of poverty in the South (ISTAT 2006).

Why a Polarised Market?

Various scholars have analysed the process of polarisation of the TV market under the effect of digital platforms. In particular, Richeri (2000a) has studied the formation of a double market where quality audiovisual content tends to migrate to premium digital channels, whereas less valuable content is being distributed on free platforms. Audience fragmentation, diminishing resources available (the average annual budget of the main editors, RAI, Rti, Sitcom, is about 8-10 million euros per channel, which, according to Marzulli 2006, is the cause for their rather "poor offer"), and the rising cost of sport rights and films (the most valuable contents) create a situation in which:

- Audiovisual programs will increasingly consist of small productions for very targeted audiences (Richeri 2000a, 10);
- Low budgets and harsher work conditions will characterise the production process of TV content (Richeri 2000a, 10);
- Reruns, and old programs already paid for, will abound on free TV;
- The growth of demand for foreign films and TV series (especially Hollywood productions) will not stimulate the production of domestic or European audiovisuals.⁵

The Role of PSB

Now, at the dawn of the digital era as it was the case at the dawn of the broadcasting era in the 1950s, the number one function of RAI should be to alphabetise its audiences to the digital languages (consider that the PSB flagship channel, RAI1's audience is about 55 years old, in a country where 19.5 percent of the population is over 65).⁶ RAI should also establish the priority of its brand in the news and information sector, as well as in the entertainment sector. It should invest heavily in creating interesting and powerful relationships with its public thereby using constructively the interactive features of digital technology. For instance, in the case of a free-to-air digital channel like *RAI Utile* (loosely categorised as a news channel), whose public service mission is to facilitate the relationship between citizens and the public administration, more efforts should be made to establish stronger connections with regional and other local institutions. RAI has the know-how, the

professional cadres, a well-established network of regional stations, along with strong liaisons with local communities. Why doesn't it take advantage of all this?

On the contrary, very little has been done to make *RAI Utile* more relevant to the citizens and the channel has so far had little impact. While watching a randomly chosen program on *RAI Utile*⁷ one cannot fail to notice its compromised quality: never-ending talk shows with hosts who simply emulate their most popular colleagues on the analogue channels: same style, same language, no innovations. The channel's mission is to "bring public service back to the centre of your public life" and indeed its programs centre around topics such as public health, education, the public administration, immigration, and poverty. The problem, however, is the lack of relevance of those programs for the audience of *RAI Utile*. For instance, the host of a talk show on December 28, 2006 kept wishing Merry Christmas to "the less fortunate among us," which included the poor, the homeless, and the elderly. But whom was this host talking to? Does he know that there are only 4 million set up box decoders in Italy and audiences for DTT are even fewer than that? And is he aware that those who watch digital terrestrial television are usually children who, if anything, tune in to watch *Boing* (Mediaset's free-to-air children channel), or those who watch soccer games on Sundays, or eager shoppers who tune in on Mediaset's shopping channel? One might reasonably assume that the "less fortunate among us" are not those few who might happen to watch *RAI Utile*: rather they are more likely to be found among those who are still watching analogue channels. Why then, if RAI is really interested in "bringing public service back to the centre of [the viewer's] life," does it not schedule those kinds of programs also on those channels where they could in fact reach "the less fortunate among us?" Why, in other words, is the idea of public service as a socially, culturally and politically marginal niche permeating the fabric of the most important cultural industry in Italy? And why should those boring, never-ending talk shows become the emblem of public life and public service broadcasting?

RAI's challenge – affirms media analyst Francesco Siliato – will not be so much to find new audiences in the digital TV environment, but rather to re-capture its old publics (Siliato 2006a). In either case, nothing can be taken for granted, as audiences will have hundreds of channels to choose from. Overall, the main target should be for RAI to make its brand visible and recognisable. There seems to be some interest in doing so in the pay-per-view environment, but on the free-to-air digital channels, the public broadcaster is following its two decades old marketing strategy: namely, be as little distinguishable as possible.

RAI's Supply in the New Media Sector

The public broadcaster, through its affiliated units, has given birth to a noticeable number of digital channels (19 in total as of December 2006, of which 10 are available on free DTT), like *RAI Utile*, *RAI Sport*, *RAI News 24*, and *RAI Doc*. Their websites as well as RAI's Annual Reports describe the mission of these channels as strategic outposts to ensure the corporation's leadership role in the Italian multimedia market. However, is this mere wishful thinking? A great uncertainty reigns inside the public broadcaster in this regard: The directorate of RAI Nuovi Media [RAI New Media], for example, is going through a rather confusing stage, and many inside the broadcaster, as well as outside, argue that its leadership is not capable of

understanding the challenges and opportunities that the public service broadcaster is facing. The whole new media division is a ramshackle enterprise comprised of different and often opposing bodies. There is, for instance, RAI Nuovi Media, but there is also RAI Net, and these two entities, which should work synergistically, instead often have opposite tasks. This is probably because, as many argue, there is no overall integrating vision for the future, and no understanding of what is happening at the cutting edge of technology, media, and content delivery and production (Contri 2006).

RAI News 24. An example of RAI's myopic vision in the field of new media is the deteriorating conditions of *RAI News 24*, the all news digital channel. When this channel was established in 1999, it was supposed to be the pioneer channel of the public service broadcaster's new media efforts in the information sector. Although at the beginning it represented a major novelty, through the years the channel has lost ground. This is because of industrial policies and lack of investments in the new media sector, as well as the fact that the second Berlusconi government failed to put the public broadcaster at the centre of the digital transition. Indeed, since the advent of Sky Italia and its free news channel *Sky TG 24*, the competitive edge of *RAI News 24* has considerably diminished. Embarrassing stories of inefficiency characterising the old days of analogue broadcasting television are re-emerging. For instance, on the tragic occasion of the incident in the Rome Metro on 18 October 2006, *Sky TG 24* was faster starting its live reporting from the Vittorio Veneto Train Station (in the centre of Rome, a relatively quick ride from the news headquarter of *RAI News 24* and all other RAI's news programs), than RAI. The accident happened at 9:37 am local time: Sky Italia's news program announced it at 9:45 and immediately thereafter began on-site live reporting. In striking contrast, the RAI crew arrived in Piazza Vittorio at 12 noon without even a single journalist among its members. Commenting on this embarrassing episode, the secretary general of RAI's main journalists' union, Carlo Verna, declared that much of the problem is that RAI does not have the right equipment (mobile resources and cameras for live reporting), something that *Sky Tg24* clearly does have. Obviously, the public service broadcaster is falling backward technologically. Its equipment, I was told, was last updated in the late 1990s (Verra 2006).

Content for Premium Channels. RAI (through its consociate RAI Sat) has a total of 6 channels on the premium satellite platform. Obviously, the quality programs produced by RAI Sat are nowhere to be found on the public broadcaster's free-to-air digital channels. Understandably, RAI Sat takes pride in what it does. Indeed, its website states that the channel has been able to create and impose a recognisable brand in the Italian television panorama, which is synonymous with high quality.⁸ Although it is important for RAI to be present in the pay-TV sector, the practice of providing quality programs that are available only to those who can afford them lies outside of the spirit of its public service mandate. Sky Italia is the exclusive distributor of RAI Sat's most successful premium channels, such as *RaiSat Extra*, *RaiSat Premium*, *RaiSat Cinema World*, *Gambero Rosso* (food channel), *RaiSat YoYo* (a new channels dedicated to small children), and *RaiSat Ragazzi* (a teens channel). It is certainly true that RAI Sat has been able to reach new heterogeneous audiences. However, its audiences are homogeneous in that they represent only those who can afford pay-TV.

The New Players

As the digital revolution is unfolding, and RAI is squabbling to find its position, a war is being waged among the various players at all levels and platforms, be they analogue or digital. Obviously, political and industrial interests as well as global forces will determine the extent to which, as Siliato said (2006b), “the government...[will be able to] seriously liberalise the television marketplace.” On one side, the shadow of the decades-long relationship between the political and media spheres and the small margins that the Prodi government has in parliament might create obstacles to the legislature’s intentions to open up the market. On the other side, global players have already been exercising their influence and lobbying power. Of course, Rupert Murdoch’s News Corp (owner of Sky Italia) has powerful stakes in how the Italian television market will evolve. Sky Italia is one of the fastest growing subsidiaries of News Corp, having reached almost 4 million subscribers in the last quarter of 2006 (a remarkable achievement given that only 3 years ago Sky Italia entered the market by buying up the moribund satellite channel Telepiù). It is also estimated that Murdoch’s satellite empire is positioned to benefit most from the proposed October 2006 law. According to an analysis by an Italian think tank, IT Media (2006), Sky could earn an additional 28 million euros a year from the implementation of the law, whereas Mediaset could lose up to 103 million euros. The Italian government denies the likelihood of such an enormous loss, but, as Communication Minister Paolo Gentiloni said referring to Berlusconi’s media empire, “when you have a dominant position in a sector you have to face economic consequences” (quoted in AP 2006).

RAI too stands to lose if the Government’s proposal to send one of its channels to the digital platform goes through. According to IT Media’s estimates, the loss might be around 65 million Euros (IT Media 2006).

Analysts say that Sky Italia is also planning to enter the DTT sector, and will likely do so now that the government has announced its plans to reserve 40 percent of the DTT bandwidth for the existing broadcasters and leave the rest for new entries. Sky Italia’s interest in entering the digital distribution market, and particularly the promising broadband sector, became clear in summer 2006, when Telecom Italia – the country’s dominant telecom operator (which had entered the terrestrial television market in 2005) – announced that it was in negotiations with Sky. Italian newspapers reported that the deal would allow Murdoch to exchange his stakes in the satellite venture for shares in Telecom Italia’s holding company, Olympia (“Telecom Italia, News Corp” 2006). Of course, the Italian government was concerned about Murdoch acquiring possession of Telecom Italia: the reports spurred parliamentary interrogations and finally caused the ousting of Telecom Italia CEO, Marco Tronchetti Provera. Although in the end the deal between Telecom Italia and Sky Italia did not go through, there is still a potential for a profitable partnership: Sky would become a multi-platform content provider, and Telecom Italia would be able to maintain its grip on the television market. Overall, these events point to a major trend in the industry, i.e., the need to supply the fast growing digital television businesses with new content, the scarce commodity in this rapidly growing entertainment business.

Telecom Italia’s media arm, TI Media, is the other major beneficiary of the proposed law: it is expected to make 25 million Euros thanks to the release of

advertising money, which has traditionally been controlled by Mediaset (in 2006 Berlusconi's holding controlled 62 percent of all advertising resources for TV) and RAI (27 percent).⁹

Mediaset, on the other hand, will continue to compete with Sky Italia. Indeed, Sky Italia's younger and wealthier audiences are those originally courted by Mediaset. Although the relations between the two media empires were amicable at first, the situation has rapidly deteriorated. In 2005, Sky Italia successfully appealed to the EU, arguing that the Berlusconi government's subsidies for purchasing digital terrestrial TV decoders fostered a condition of unfair competition. Driven by the sales of those decoders bought with government subsidies – Murdoch argued – Mediaset was able to negotiate broadcasting rights with several major soccer clubs, which were aired on its pay-per-view DTT platform. The competition over soccer rights is due to intensify as Sky Italia, RAI, and Mediaset prepare to bid for the rights to Euro 2008 and the World Soccer Cup of 2014.

Conclusions

The legislation that was proposed in October 2006 aims to break the existing duopoly and to ensure that it will not reproduce itself in the digital market. The determination to separate content providers from network operators is also a very important and welcome provision, which might encourage new entries in the TV content business. However, that this will happen should not be taken for granted. As Richeri noticed, what is important is to actively promote a diversification of content suppliers (especially independent producers). In fact:

European television history has pointed out that an increase in the number of broadcasters does not necessarily imply a wider variety of suppliers, genres and formats. On the contrary, competition between broadcasters often leads to a homogenization of the programmes around those genres and contents that are more successful (Richeri 2003).

Pervasive seems to be the notion that, finally, from the Middle Ages of the duopoly we are moving forward to the Renaissance of the free market of ideas. The end of the duopoly, external pluralism, "true" competition and "real" anti trust measures, are the buzzwords that can be found in much of the language used by the Communication Authority, the Constitutional Court, policy makers, industrial representatives and media commentators. In effect, what we are witnessing might well be the end of the duopoly and the beginning of a more liberalised market. The mistake, however, would be to believe that diversity of sources and programming will automatically qualify the digital television market. In fact, as Marzulli (2006) reminds us, international (mostly U.S. based) corporations already dominate the market of content production for thematic pay-TV channels in Italy. Again, as Richeri (2003) points out, the sector of domestic or European content producers will not automatically be stimulated unless *ad hoc* provisions are implemented by the EU and the member states to ensure that a considerable proportion of TV content is of domestic origin.

A source of concern is the formation of a polarised television market, where valuable content is available for a fee, and cheap programs are available on free-to-air channels. This is untenable if we consider broader issues of social cohesion, citizens' rights to participate in cultural and social events (major sports events, for

example), citizens' rights to access quality information and entertainment. This is where the role of the public broadcaster should be reinvigorated as a provider of free quality programs for all. Instead, RAI is being humiliated. Taking away advertising resources from two of its channels (as the reform law of October 2006 foresees) without planning on increasing the license fee, or providing for alternative funding, means that the public broadcaster will be relegated to a marginal role.

More government support should be considered (although increasing the license fee is never a popular move) if we want to reap the benefits of DTT, and promote its potential. The uncertainties about the sources of revenues for DTT and the prolonged transitional period from analogue to digital (foreseen for November 2012), call for the government to step in to support the development of free-to-air DTT. As we have seen, if left to market forces, DTT might develop very slowly. As Richeri underlines, more public intervention is necessary, although not sufficient, to "reduce the risks of technological fracture and the new and serious forms of social, cultural, and economic disequilibrium of the future" (2004c). Public operators should be given the opportunity to produce "attractive products while at the same time...contribute to the democratic expansion of the consumers' base in order to avoid citizens of Series A and those of Series B" (Sartori 2006, 165). A choice exists, and it is too reductive and limiting to assume that all is lost for public broadcasters, and that the logic of the market is the only possible logic. In the end, it will be the "role that will be assigned to the public broadcaster that will contribute to defining the [final] market model: either a 'European' [model] (with a tripartition, differently balanced, among license fee, advertising and subscriptions) or an 'American' model (with a bipartition between advertising and pay offer ... with the public broadcaster at the margins)" (Marzulli 2006, 47).

Alternative solutions have been proposed to ensure the survival of public broadcasters. Given the growth of the pay-TV sector, Richeri (2004a) proposes that public broadcasters develop a more direct relationship with the consumer, in the form of pay subscription revenues as a source of additional income. This is what RAI's premium channels are doing. It is certainly a positive thing that the public broadcaster is positioning itself in the pay-TV market with a recognisable brand; however it is unclear if any profit from this endeavour will ever serve to benefit the free-to-air content. This is also the direction that other PSBs, including the BBC, might take in the future. In fact, some analysts argue that the life expectancy of PSBs might be prolonged if they embraced "the principle that lies at the heart of technology's impact on the media – consumer choice – and let subscriptions pay for at least some of [their] offerings." ("The Future of the BBC" 2007, 49). Although this strategy makes sense from a market point of view, it will, in the long run, likewise contribute to undermining the argument for public support in the form of the license fee. In fact, getting into the pay-TV market might be one more significant step away from a public service broadcaster's public service mission. After all, PSBs are supposed to bridge the television divide, not deepen it.

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Notes:

1. The antitrust limit set by the 1990 law (Art. 15, para. 4) was declared illegitimate by the Constitutional Court in 1994 (sentence n. 420). <<http://www.giurcost.org/decisioni/1994/0420s-94.html>> Retrieved on 16 December 2006.
2. This is the definition of the “integrated communication system” (SIC) according to Law 3 May 2004, n. 112, Art. 2. <<http://www.comunicazioni.it/it/index.php?IdPag=836>> Retrieved on 21 December 2006.
3. Law no. 66 of 20 March 2001 originally established 2006 as the deadline for the analogue switch-off. This deadline was extended twice, first to 2008 and then to 2012.
4. Sky Italia is the digital satellite television platform owned by Rupert Murdoch’s News Corporation.
5. In fact, the market for thematic pay channels is already dominated by U.S. and other extra European groups, such as Disney, Newscorp, Time-Warner, Liberty Media and Viacom. Only 1/3 of the channels that are in the “basic” offer of Sky Italia are Italian-owned (Marzulli 2006, 50).
6. Data from ISTAT, 2005. <<http://www.istat.it>> Retrieved on 10 November 2006.
7. Streaming available at <http://www.raiutile.rai.it/pop_onda.jsp> Retrieved on 28 December 2006.
8. See <<http://www.raisat.it>>
9. Data gathered from IT Media (2006).

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