

Without Prejudice,

To,

Mr. Wasi Ahmad

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TRAI

Written Comments for Consultation Paper floated by TRAI on 'distribution of TV channels from Broadcasters to Platform Operators'

These comments are being made with reference to the consultation paper floated by TRAI on 'distribution of TV channels from Broadcasters to Platform Operators'.

While it appears that TRAI is already well aware of the situation being witnessed by the relevant players in the broadcasting and cable TV industry as a consequence of the emergence of '*aggregators*', there are certain pertinent issues to be brought forth so that the same could be addressed and suitable amendments be made to the relevant acts, rules, regulations etc.

The written comments made henceforth are broadly divided into two limbs followed by recommendations which are additional to the proposals already made in the consultation paper and in the draft (amendment) regulations and the draft memorandum.

The first limb deals with the anti-competitive practices being practiced by the '*aggregators*' and related industry players which in effect is prejudicing the competition in the relevant market and is thereby adversely affecting the interest of small time '*players at the lower end of the supply chain*' namely, the MSOs and the LCOs, which in turn is being passed on to the end-consumers.

The second limb deals with the issues related to pricing of pay channels and as to in what manner the pay channels ought to be priced so that a fair situation be

arrived at for all the relevant players and the end-consumers of the broadcasting and cable TV industry.

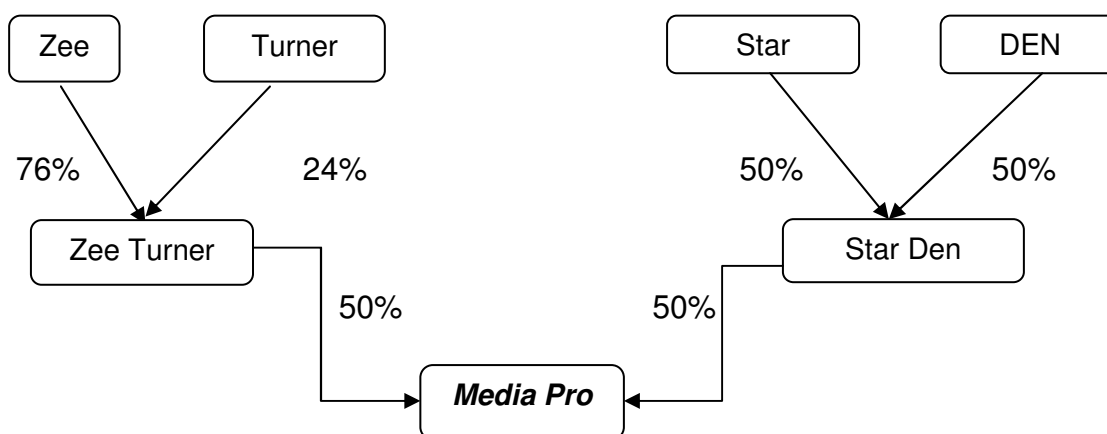
The persons submitting the comments made herein, also hereby request the Authority to allow them an opportunity of being heard in case if the Authority would conduct any open-house discussion with respect to the topic of the present consultation paper.

Anti-Competitive Practices practiced by 'aggregators' and related industry players

1. The Hon'ble Supreme Court in *Star India Pvt. Ltd. v/s Sea T.V. Network Ltd. & Another* vide judgement dated 03.04.2007 had *inter alia* opined that "...The object of Interconnection Regulations is to eliminate monopoly..." and "...although a broadcaster is free to appoint an agent under the proviso to clause 3.3 such an agent cannot be a competitor or part of the network...".
2. In effect it was pronounced by the Apex Court that no '*player in the supply chain including an MSO/LCO*', should have any interest in the '*authorised distribution agent*' of the broadcaster.
3. As already pointed in the draft memorandum that there are about 233 pay channels in the country, out of which about 170 are distributed by the four main leading '*aggregators*', however, what the draft memorandum has missed out on mentioning is that the leading aggregators are the very creation of the leading broadcasters and the other related industry players such as the national level MSOs and/or DTH service providers, who are interested in the aggregators, and owing to which certain anti-competitive practices are being witnessed in the relevant market.
4. For instance, in 2002, a joint venture was established by Zee Entertainment Enterprises Ltd and Turner International Private Limited

under the name of 'Zee Turner Ltd.'. This entity which had a stake-holding pattern of 76:24 (Zee:Turner) was meant for distribution of channels belonging to the Zee group and the Turner group in India, Nepal and Bhutan.

5. Thereafter, in 2008, DEN Networks Ltd., a leading MSO in the country collaborated with Star India, a leading broadcaster, to form a 50:50 joint venture under the name of 'Star Den', for the 'exclusive distribution' of pay channels belonging to Star India and certain other broadcasters.
6. Thereafter, in May 2011, Zee Turner Ltd. and Star Den Media Services entered into a 50:50 joint venture to form 'Media Pro Enterprise India Pvt. Ltd.' which as on date acts as the exclusive distribution agent of about 80 pay channels belonging to the Star DEN and Zee Turner bouquets.
7. To illustrate the above mentioned, a diagrammatic representation is given:-



8. That before proceeding any further, it is pertinent to point out that the very formation of 'Star Den' (i.e. Star, a broadcaster and DEN, an MSO) was in defiance of the mandate of the above referred to ruling of the Apex Court that 'although a broadcaster is free to appoint a distribution agent, such a distribution agent cannot be a competitor or a part in the network.'

9. Therefore, it is self-explanatory as to why the very formation of '*Media Pro*' (involving 3 leading broadcasters and an MSO) was/is in complete defiance of the referred to ruling of the Apex Court.
10. Further, as already stated in the draft memorandum, there are about 233 pay channels in India offered by 59 pay broadcasters. Therefore, if out of the 233 pay channels, 75 or 80 leading pay channels of different genres and belonging to three leading broadcasters viz. Zee, Star and Turner are being distributed by one common entity namely, Media Pro, it is indicative of the fact that '*Media Pro*' is enjoying a share of about 40% of the market and is in a '*dominant position*' in the relevant market.
11. That the draft memorandum has already pointed out that the aggregators are accumulating more and more channels of different broadcasters and are strategically accommodating some of the '*lower value channels*' in the bouquets offered by them in order to push such channels alongwith the popular ones.
12. That in this respect it is pertinent to state that no aggregator including Media Pro has refrained itself from '*tying-in*' the low value channels alongwith the popular ones, which has left the MSOs and/or LCOs with no other alternative but to purchase the low value channels tied-in with the popular ones as otherwise the MSOs/LCOs will be denied of the popular pay channels. Further, the purchase of the popular channels on a-la-carte basis at the prevalent prices puts greater burden on the MSOs/LCOs which inevitably gets passed on to the end-consumers.
13. That the above stated practice of the aggregators such as Media Pro, is anti-competitive in nature and is in blatant violation of Section 4 of the Competition Act, 2002 as aggregators such as Media Pro are abusing their '*dominant position*' in the relevant market by *inter alia* imposing unfair conditions on-

- (i.) the purchase of channels by the MSOs/LCOs, by tying-up the low value channels with the popular ones, and
- (ii.) the price at which popular channels are purchased on a-la-carte basis.

14. The relevant portion of Section 4 of the Competition Act, 2002 is reproduced below:-

“4. Abuse of dominant position.- (1) *No enterprise or group shall abuse its dominant position.*

(2) *There shall be an abuse of dominant position under sub-section (1), if an enterprise or a group.—*

(a) *directly or indirectly, imposes unfair or discriminatory—*

(i) *condition in purchase or sale of goods or service; or*

(ii) *price in purchase or sale (including predatory price) of goods or service.*

.....

(d) *makes conclusion of contracts subject to acceptance by other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts; or*

.....

Explanation.—For the purposes of this section, the expression—

(a) *"dominant position" means a position of strength, enjoyed by an enterprise, in the relevant market, in India, which enables it to—*

(i) *operate independently of competitive forces prevailing in the relevant market; or*

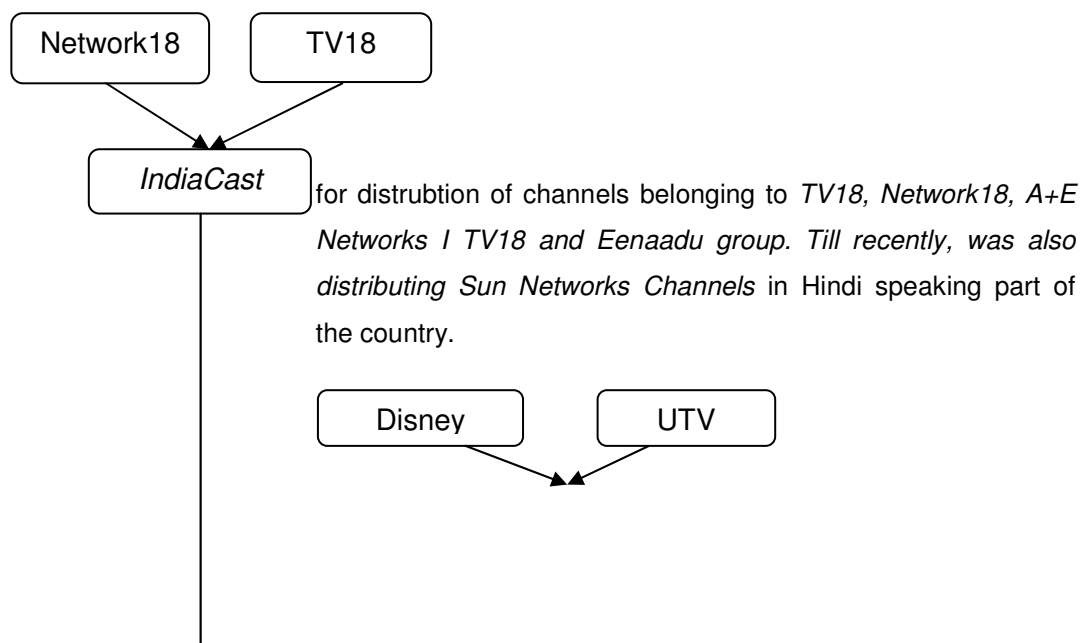
(ii) *affect its competitors or consumers or the relevant market in its favour.*

.....”

15. As already indicated in the draft memorandum, the case of Media Pro is not an isolated one. In 2002, two of the leading broadcasters namely, Multi Screen Media Pvt. Ltd. (Sony Entertainment Network) and Discovery Communications formed the aggregator, ‘MSM Discovery Private Ltd.’ popularly referred to as ‘TheOneAlliance’, which as on date is the

authorised distribution agent for about 30 pay channels including some of the most popular channels of different genres belonging to Sony, Discovery, TV Today Network (India Today Group) and Times Television Network (Bennett Colman Group).

16. Similarly, in 2012 two affiliated broadcasting entities, TV18 and Network18 (which earlier were a single entity i.e. Network18) strategically formed a joint venture, popularly referred to as '*IndiaCast*' for distribution of about 26 pay channels belonging to TV18, Network18, A+E Networks I TV18 and Eenaadu group (ETV group). Till recently, IndiaCast was also distributing Sun Network Channels in the Hindi speaking part of the country.
17. It is pertinent to mention that the predecessor of IndiaCast was Sun18 Media Services (North) Co., which was the erstwhile alliance between Network18 and Sun Network Limited for the geographic area of north India.
18. Thereafter, IndiaCast entered into a further joint venture with Disney UTV group to create, '*IndiaCast UTV Distribution Private Limited*' for distribution of channels which were already there in the bouquets of IndiaCast alongwith the channels belonging to Disney UTV group. As on date, IndiaCast UTV Distrubtion Private Limited is into the distribution of about 35 pay channels belonging to various leading broadcasting entities.
19. To illustrate, the formation and functioning of IndiaCast UTV Distribution Private Limited, a diagrammatic representation is given below.



Disney UTV Group

**IndiaCast UTV Distribution
Private Limited**

for distribution of channels *already there in the bouquet of IndiaCast* alongwith the channels of *Disney UTV Group*. Total channels about 35.

20. Further, as already mentioned in the draft memorandum, there is another leading aggregator i.e. '*Sun Distributors Services Private Limited*', which is the successor of Sun18 Media Services (South) Co., which as mentioned earlier was the erstwhile alliance between Network18 and Sun Network Limited for the geographic area of south India.
21. It is pertinent to point out that '*Sun Distributors Services Private Limited*' belongs to the media conglomerate, Sun TV Group which is also in the business of providing DTH services under the brand *Sun DTH*.
22. As already stated in the draft memorandum, the above named '*four aggregators control about 73% of the pay channel market and thereby have the substantial negotiating power which is often being misused.*'
23. The oligopolistic approach of the leading broadcasters of forming cartels in the guise of '*aggregators/joint venture*' is an anti-competitive practice as the arrangements between the broadcasters have in no manner increased the '*efficiency*' in the relevant market but on the other hand, have led to a situation where the '*players at the lower-end of the supply chain viz. the MSOs and the LCOs*' are facing undue hardships with respect to the provision and pricing of the pay channels and are left with no other alternative but to pass on the burden to the end-consumers.

24. The above stated practice of the broadcasters of forming cartels in the guise of 'aggregators/joint ventures' is in blatant violation of Section 3 of the Competition Act, 2002 which provides:-

“3. Anti-competitive agreements.- (1) *No enterprise or association of enterprises or person or association of persons shall enter into any agreement in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition within India.*

(2) *Any agreement entered into in contravention of the provisions contained in subsection (1) shall be void.*

(3) *Any agreement entered into between enterprises or associations of enterprises or persons or associations of persons or between any person and enterprise or practice carried on, or decision taken by, any association of enterprises or association of persons, including cartels, engaged in identical or similar trade of goods or provision of services, which—*

(a) *directly or indirectly determines purchase or sale prices;*

(b) *limits or controls production, supply, markets, technical development, investment or provision of services;*

(c) *shares the market or source of production or provision of services by way of allocation of geographical area of market, or type of goods or services, or number of customers in the market or any other similar way;*

.....

Provided that nothing contained in this sub-section shall apply to any agreement entered into by way of joint ventures if such agreement increases efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services.

.....

(4) Any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, including—

(a) tie-in arrangement;

.....

(c) exclusive distribution agreement;

.....

Explanation.—For the purposes of this sub-section,—

(a) "tie-in arrangement" includes any agreement requiring a purchaser of goods, as a condition of such purchase, to purchase some other goods;

.....

(c) "exclusive distribution agreement" includes any agreement to limit, restrict or withhold the output or supply of any goods or allocate any area or market for the disposal or sale of the goods;

....."

25. That a perusal of the above cited statutory provision will also indicate that the 'exclusive distribution agreement' between the broadcaster(s) and the aggregators are also in blatant violation of Section 3 of the Competition Act, 2002.
26. Similarly, the agreements whereby the MSOs/LCOs are compelled to purchase the low value channels in bouquets alongwith the popular channels, are also in violation of Section 3 in view of explanation of 'tie-in arrangements' given thereunder.

27. That it is further pertinent to point out that Regulation 3 of the Telecommunication (Broadcasting and Cable Services) Interconnection Regulations, 2004 mandates that channels shall be offered by the broadcaster or its authorised distribution agent on a “*non-discriminatory basis*” and “*in a manner which is not prejudicial to competition*” and that “*no broadcaster shall engage into any practice or activity or enter into understanding or arrangement, including exclusive contracts with any distributor of TV channels from obtaining such TV channels for distribution.*”
28. Similarly, Regulation 3 of the Telecommunication (Broadcasting and the Cable Services) (Digital Addressable Cable Television Systems) Interconnection Regulations, 2012 mandates that every broadcaster or its authorized distribution agent shall provide television channels to multi-system operators on “*non-discriminatory*” basis and “*no broadcaster of TV channels shall engage in any practice or activity or enter into understanding or arrangement, including exclusive contracts with any multi-system operator from obtaining such TV channels for distribution.*”
29. However, in the current scenario where for instance Media Pro, a leading aggregator and which is a creation of three of the leading broadcasters and a national level MSO, is the authorised distributor for about 40% of the pay channels in the industry; it is unreasonable to imagine that supply of channels to the ‘*players at the lower end of the supply chain viz. the MSOs and the LCOs*’ will happen on a non-discriminatory basis.
30. Furthermore, it is pertinent to point out that in certain cases, even the ‘*locally appointed agents*’ of the aggregators are persons who are entities related to the leading MSOs/LCOs and thereby, the small time MSOs/LCOs often find it difficult to avail the pay channels from such locally appointed agents in a fair and non-discriminatory manner.

31. For instance, the persons submitting these comments are small time operators who operate within the area of their respective cities in the state of Uttar Pradesh.

That in most areas of Uttar Pradesh the locally appointed distributors for some of the leading pay channels are entities related to the leading MSO i.e 'DEN Networks'. As DEN Networks (or its subsidiaries) also operates as an MSO in most areas of Uttar Pradesh and enjoys sort of a monopoly in the MSO business in most of the areas of Uttar Pradesh, the small time MSOs/LCOs in Uttar Pradesh are facing great hardship for their survival as they compelled to abide by the terms and conditions dictated by DEN Networks and have been left with zero negotiating power.

32. Moreover, it is utmost pertinent to point out that in the present scenario where it is being proposed that the cap on foreign investment in the broadcasting sector should be relaxed further; the survival of the small time players would become all the more difficult as unlike their larger competitors the small time players do not possess the ability to reach to the resources which are/will be available as a consequence of foreign investment.

Fair Pricing of Pay Channels on a-la-carte basis

33. It is pertinent to state that irrespective of delinking the pay channels of one broadcaster from that of the other broadcaster and reconstituting the whole bouquet so as to provide the pay channels of only broadcaster, no fair solution to the whole issue could be achieved.
34. That even in the case of a reconstituted bouquet where all channels belong to only one broadcaster, the broadcaster will have the undue advantage to club the '*lower value channels*' belonging to itself alongwith the popular ones.

35. The MSOs/LCOs in such an event would again be compelled to purchase the lower value channels else they shall be denied of the popular pay channels of the broadcaster.
36. That thereby, the anti-competitive practice of 'tying-in' the lower value channels with the popular ones shall remain prevalent even if the bouquets offered by the aggregators at present are reconstituted and bouquets having the channels of a single broadcaster are offered.
37. Therefore, to remedy the situation it is inevitable that the offering of bouquets of pay channels is disallowed and it be made mandatory for the broadcasters to offer pay channels only on '*a-la-carte basis*'.
38. Further, in order to ensure that the broadcasters are restrained from demanding unreasonably exorbitant charges for the pay channels offered on a-la-carte basis, an '*upper ceiling limit per end-subscriber/consumer*' be prescribed as had been prescribed during the erstwhile CAS regime under Clause 6 of the Telecommunication (Broadcasting and Cable) Services (Third) (CAS Areas) Tariff Order, 2006 (6 of 2006).
39. The broadcasters be allowed to price a particular pay channel within the prescribed upper ceiling limit and, if there are two channels offered by the broadcaster belonging to the same genre then both the channels be priced equally.

For example, if a broadcaster has two channels 'A' and 'B', both belonging to the genre of General Entertainment then the price of both 'A' and 'B' has to be equal.

40. This in turn will also curb the practice of shuffling of popular programmes by the broadcaster from its one pay channel to another.
41. Further, the fixing of an upper ceiling limit would not cause any undue prejudice to the revenue of the broadcaster as unlike some of the other countries where pay channels are advertisement-free; there is no bar in

India for the broadcasters to have two parallel sources of revenue, one from the advertisers and second from the sub-scribers.

42. Further, it has been witnessed that some of the pay channels remain popular during a certain particular period of the year. However, the prices charged for such channels remains the same throughout the year.

For example, one of the film based channel offered by a leading broadcaster also broadcasts an annual major sporting event organized during April-May-June.

This channel remains popular only during such period when the sporting event is broadcasted. However, during rest of the year its popularity remains below par.

Now, because it is offered in bouquets alongwith other popular channels, the sub-scribers are compelled to continue subscribing it throughout the rest of the year as well; though, the channel is also offered on a-la-carte basis, the a-la-carte price is such that it would be financially unviable for the sub-scriber to avail it on a-la-carte basis.

43. Therefore, if an upper ceiling limit is prescribed on the a-la-carte price of this channel, the sub-scriber will have the flexibility to avail the subscription of the channel only for the period when the channel broadcasts the major sporting event and to pay the price accordingly.
44. That further, it is pertinent to state that although the upper ceiling limit on the a-la-carte prices of pay channels may be different for different media viz. DTH, HITS and IPTV, the price charged from one player should be the same as charged from another player in the same sphere irrespective of the size, sub-scriber base, geographic location of the player etc.

For example, Rs. 'X' may be charged from an MSO and Rs. 'Y' may be charged from a DTH service provider. However, only Rs. 'X' will be

chargeable from another MSO and Rs. 'Y' from another DTH service provider.

45. Further, in the current scenario where digitization of the cable industry is to be implemented throughout the country by December 31, 2014 the broadcaster will have all the pertinent information about the end-subscriber/consumer base of an MSO/LCO and the pay channels belonging to it subscribed by the end-subscribers/consumers and thereby transparency would be prevalent when the aggregate payment is made by the MSO/LCO to the broadcaster.
46. Furthermore, there should be a *'fixed revenue sharing model'* as was prescribed for CAS, where a certain percentage of the a-la-carte price paid by the end-subscriber/consumer will be shared between the broadcaster and the other players in the supply chain.

For example, if Rs. 5 is paid as the a-la-carte price for a pay channel by the end-subscriber/consumer, then 40% of Rs. 5 i.e. Rs. 2 shall go to the broadcaster, 30% i.e. Rs. 1.50 will go to the MSO and 30% i.e. Rs. 1.50 will go to the LCO.

47. It is further pertinent to point out the fixation of upper ceiling limit on the price of pay channels and fixation of the revenue sharing model, shall do away with the situation where unfair and discriminatory charges could be demanded by the broadcasters from the other players in the supply chain.

In view of the above, and in addition to the proposals already made by TRAI in the consultation paper, the following recommendations are made:-

- (i) The broadcaster and authorised distribution agents will act on a principle-agent basis and, the authorised distribution agent shall act only as a liasoning division of the broadcaster and shall not enter into any agreement on behalf of the broadcaster.

- (ii.) The authorised distribution agent of the broadcaster shall have no interest with respect to any another broadcaster.
- (iii.) The authorised distribution agent of a broadcaster shall have no interest with respect to any other player in the supply chain or in the industry be it an MSO, LCO, DTH service provider, etc.
- (iv.) Pay channels will be offered by the broadcasters only on a-la-carte basis.
- (v.) An upper ceiling limit per end-subscriber/consumer is fixed and the broadcaster is obliged to fix the price of a pay channel on a-la-carte basis, only with such prescribed upper ceiling limit.
- (vi.) If two pay channels are offered by the broadcaster belonging to the same genre then the price charged for one shall be the same as charged for the other.
- (vii.) The price charged by the broadcaster from one player in the supply chain should be the same as charged from another player in the same sphere irrespective of the size, sub-scriber base, geographic location of the player etc.
- (viii.) Price of the pay channels will be published on the website of the broadcaster.
- (ix.) A *'fixed revenue sharing model'* is prescribed where a fixed percentage of the a-la-carte price paid by the end-subscriber/consumer will be shared between the broadcaster and the other players in the supply chain.

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