scale deployments to point at. To him, the claim that IPTV will capture 30% of television subscribers within five years of deployment seems over-optimistic: 10-15% is more like it, he says. And even if television does double the operators' average revenue per user, they will not be able to pocket all of the extra money, because the content providers will need to be paid.

The problem for operators is that although many of them are not convinced by these numbers either, they still feel that they have to get into the television market anyway, because everybody else is doing it. "You have to defend yourself on as many fronts as possible, but as a strategic move to make a lot more money I don't see the justification," says Mr Godell.

After all, video services, like voice services, can be delivered over broadband pipes by other companies too. At the moment, real-time multichannel television is too bandwidth-intensive to be provided by third parties across the internet. But downloads of individual television programmes and films are already available from MovieLink, Amazon, Apple and others. As viewers move away from traditional forms of television and towards a pick-and-mix model, telecoms firms could find themselves in a situation similar to that created by VOIP in the voice market: their customers will be able to buy broadband internet access from one company and then choose from a host of internet-based firms for their video content. Indeed, iSuppli, a market-research firm, predicts that such downloads will be worth twice as much as IPTV video on demand by 2010 (see chart on previous page).

Telecoms operators are jumping into television at a risky time, in other words, just as the way in which it is consumed and delivered is changing radically. Perhaps they will benefit from this by offering their own video-on-demand services, but they could also find that the market is far less lucrative than they had expected.

Mr Godell believes that the best way to enter the television market, particularly in western Europe, where people are not prepared to pay very much for television content, is to keep capital expenditure and operational risk to a minimum, which would favour the hybrid DTT/IPTV approach. The projections of future growth in television adoption, says Mr Godell, ignore the fact that overall household spending on entertainment is flat, "so it's mostly about substitution—there is no overall growth."

Furthermore, Europeans spend much less on pay-TV services and DVD sales and rentals than they do on fixed-line telephony, so even if telecoms operators capture the entire television market, they will not be able to make up for the decline in their traditional voice business. They should move into television as a defence, not as a source of future growth. ■

Changing the rules

How should regulators respond to convergence?

CONVERGENCE is forcing changes not only on telecoms companies and consumers but on regulators too. In many countries communications, broadcasting, entertainment and information services have separate regulators or different rules, but as the distinction between them starts to blur that no longer makes much sense. Drawing up new rules for a converged world, however, is fraught with pitfalls, as a recent OECD report explains. Already, fights have broken out in many parts of the world over the regulation of converged networks and bundled services.

One controversial question is whether incumbent operators should be compelled to share their next-generation networks with rivals, as they are required to do with their existing networks in many parts of the world. In America, where cable networks pass 95% of homes, regulators have decided that Verizon and AT&T do not have to make their new high-speed networks available to rivals on a wholesale basis; instead, their principal competition will come from cable operators. In Britain, however, where cable networks pass only 50% of homes, the regulator has ruled that BT must open its next-generation network to rivals. The European Commission, which published a draft of its new Europe-wide telecoms-regulation framework in June, would like to see a similar approach adopted across Europe. In August the commission ordered Deutsche Telekom to open its new network to rivals.

Bundling services together, and creating new converged services such as fixed-mobile telephony, can also raise antitrust concerns. Italy's regulator, AGCOM, imposed strict limits on the initial roll-out of Telecom Italia's fixed-mobile service, Unico, because Telecom Italia's biggest fixed-line competitor, Fastweb, could not offer mobile services, and its biggest mobile competitor, Vodafone, could not offer fixed-line services—though Vodafone and Fastweb have since struck a deal to bundle their services together. Given its dominant position in both markets, Telecom Italia was deemed to be acting anticompetitively by combining the two. Similar rules have prevented KT in South Korea from offering full fixed-mobile convergence.

In some cases special rules prevent firms that are dominant in one market from entering another at all. Japan's incumbent operator, NTT, is not allowed to enter the broadcasting market; conversely, the country's public broadcaster, NHK, is not allowed to enter the telecoms market. Similar rules preventing BT, Britain's incumbent operator, from providing entertainment services were abolished a few years ago, opening the way for the launch of its television service this year.

In America the launch of television services by telecoms firms has been held back by complicated rules that require operators to win approval from thousands of local franchising authorities. This has prompted some states to pass laws granting blanket approval for telecoms firms to launch television services, and the industry is now pressing for federal rules to cover the whole country. But cable operators are understandably opposed. They grumble that their franchises require them to offer blanket coverage, whereas telecoms firms are able to pick and choose which neighbourhoods they cover with their new television services.

Unfair advantage

Another bone of contention is "must carry" rules that require cable operators to carry certain local or public-interest channels on their networks, but do not apply to telecoms firms. The cable companies complain that having to carry these channels ▸▸