

## V THE DIGITALIZATION PROCESS

After the optimistic tones expressed in our March Monitoring Report, a radical u-turn took place, bringing into question the completion of the digitalization process by June 17, 2015, the date when Serbia is expected to finalize its digital switchover, in accordance with its international obligations. The event that has threatens to slow down of the digitalization process is the decision by the RBA Council to call a public competition for the issuance of television broadcasting licenses with national coverage, on the frequencies left vacant after TV Avala lost its frequencies last October. We have analyzed the grounds for such a decision in the part of this Report concerning the work of regulatory bodies. Here we will try to point to the consequences of that decision on the digitalization process, as well as to the financial implications and the indirect damage that Serbia might incur as a result of the slowing down of the digital switchover process.

The main problem of digitalization in Serbia, ever since 2006, when it started being contemplated, is the lack of frequencies. The main reason for that is the excessive number of licenses with national coverage. Precisely due to the lack of frequencies, the state initially opted for the “one-day” digital switchover. A true simulcast (simultaneous digital and analog broadcasting) was not possible. On the other hand, the simulcast is necessary for testing the digital signal and adequately preparing the digital network. The simulcast undoubtedly reduces the risk of signal loss at the moment of the switchover. In the meantime, the initial deadline for the switchover – April 4, 2012 – was exceeded, but certain frequencies were left vacant after some stations were shut down, which enabled some form of simulcast by setting up the Initial Network for experimental digital broadcasting. That resulted in a changed digital switchover strategy and other relevant digitalization-related documents. The most significant change was the one providing for the switchover by gradual switching-off of the signal by region (in stages) and the setting up of the Initial Network for experimental digital broadcasting. That network has been in operation since March 23, 2012. However, in more than a year of its existence, it has failed to deliver on its full purpose, since it enables small-scale broadcasting from merely 15 locations. It seemed as if the Ministry of Foreign and Internal Trade and Telecommunications, RATEL and the Public Company “Broadcasting Equipment and Communications” (ETV) had reached a high degree of agreement about the need to expand the Initial Network. Revoking the license of TV Avala has made it technically possible, since the shutting down of that national-coverage television station has for the first time left the frequencies vacant for expanding the network. RATEL and ETV planned to air the trial digital signal from 35 instead of 15 locations, which may be observed from the Allocation Plan that was subject to public consultations in

March and April. At the conference on digitalization organized by OSCE in Belgrade on March 25, only a month before the RBA called the tender, Deputy Prime Minister and Minister for Foreign and Internal Trade and Telecommunications Rasim Ljajic, the Minister for Culture and the Media Bratislav Petkovic, OSCE Ambassador Peter Bukhard, the Ambassador of the EU Delegation to Serbia Vincent Degert, State Secretary in the Ministry for Foreign and Internal Trade and Telecommunications Stefan Lazarevic, RATEL Director Milan Jankovic and the Acting Director of ETV Dejan Smigic, practically agreed that the “key development to enable a step forward and a real kick-off of the digitalization process is the expansion of the Initial Network with the channels hitherto used by TV Avala, according to the design initiated and produced by ETV. Back then, Smigic said that “ETV is preparing for putting in operation the planned transmitters as soon as the paperwork is finished”. He also said that, at the same, time, EU-donated equipment would be put into operation, which had been lying idle, while simulcast would enable the coverage of 80% of the population.

What are the consequences of calling the tender for vacant frequencies formerly used by TV Avala? Firstly, without a genuine simulcast, Serbia might remain without a terrestrial television signal at the moment of the digital switchover. Secondly, ETV will not be able to install the remaining equipment it has received under the agreement with the European Commission, from pre-accession EU funds. That equipment is worth almost 8 million Euros. Due to the fact it has not been used, the EC could reclaim it, while Serbia could be ordered to pay penalties for breach of contract. This is a realistic possibility, since the EU Delegation in Serbia has warned several times the line ministry that the equipment must be installed and used. Thirdly, since all the countries in the region will switch over to digital broadcasting by June 17, 2015, when the Agreement on the Protection of Analog Frequencies expires, some fear that the neighboring digital signals will hamper the reception of analog signal in Serbia. Instead of the promised quality digital signal and accompanying services, the citizens could lose the analog signal they are currently receiving. In the fourth place, deferring the process of digitalization will defer the licensing of the digitalization-freed frequency spectrum, which is typically called “digital dividend”. Serbia could earn substantial profit from licensing the digital dividend. Moreover, since this part of the spectrum could be licensed for broadband mobile access services, the citizens and the economy could end up without modern mobile broadband, if the aforementioned deferment takes place. Finally, the issuance of analog frequency licenses in the second decade of the 21<sup>st</sup> century is completely anachronous and may not be logically or economically justified. Setting up an analog network entails costs; setting up such network in Europe, only two years from the date as of which analog frequencies will cease to be protected at the international level, is akin to throwing money away in a situation when money is scarce and

could find better use. Some would say it is the private money of a broadcaster opting to participate and win on the tender and that it is not our business to worry about someone spending their money irrationally. However, it is not that simple. The tender is a cost for the state, while the biggest cost is the postponement of the sale of the digital dividend. The countries that sold the digital dividend have generated substantial one-time profit. Germany received 3.57 billion Euros for 60 MHz in the part of band for digital dividend, which is almost 60 million Euros per megahertz. For the same number of megahertz, France got 2.6 billion Euros, the US 19.1 billion dollars, Italy 2.96 billion Euros and Spain 1.3 billion Euros. Experience has shown that the price of the spectrum falls exponentially with the postponement of its release, namely the digital switchover process. In the region, even Croatia, which has completed the digitalization and launched a tender for selling the digital dividend, got for 40 MHz only 40 million Euros. If the switchover is further postponed, Serbia will probably receive even less. Furthermore, in addition to direct gain in the form of tender funds, experience has shown the link between the usage of this part of the spectrum and the increased use of the broadband access: in that part of the spectrum, the costs of using mobile Internet are far lower and, according to some reports, 10% increase in the penetration of broadband access brings a 1.4% BDP growth, which, in turn, increases employment. With all that in mind, the question is what motivated the RBA to pass a decision that practically deferred the sale of the digital dividend for the purpose of licensing the fifth national commercial station, on top of the existing four? What is more, the tender itself comes at a cost. If we bear in mind that the license of the remaining national broadcasters will expire as soon as in 2014, is the RBA intent on having a tender for national coverage twice in only two years and who will pay for it?