The Evolution of Cable Regulatory Policies and Their Impact: A Comparison of South Korea and Israel

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This study compares policy history and the development of cable television in South Korea and Israel. Tracking the evolution of cable policy in each country, it assesses effects on the market and draws conclusions that may be applied in other countries. The study adopts a model created by McQuali, de Mateo, and Tapper (1992) and the industrial organization model as its descriptive tools. The study focuses on market performance in two countries that made a transition from an old order of government planning to a new order of increased market autonomy, with similar goals in mind and in response to similar pressures, while employing different market structures. Although the policies adopted and their outcomes differed in terms of competition structure, market conduct, and performance, similar outcomes patterns were observed. These differences and similarities can help explain success and failure in regulating cable markets.

In the past 2 decades, the media and telecommunications industries in most countries have abandoned the model of regulated monopoly-dominated markets in favor of regulated competition. This transition is evident in the cable industry. What was once an industry of multichannel video distribution provided by monopolies has undergone two key changes: more than one provider offers multichannel video and the cable operators themselves have the capabilities to provide broadband Internet access and telephony.

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This study takes a model created to describe changes in media markets in Europe in the 1990s by McQuail, de Mateo, and Tapper (1992) and applies it to other industries in countries outside of Europe, using the industrial organization model as its descriptive tool. The models are applied to describe changes in the cable industry in two countries—South Korea and Israel. In both countries, this transition has resulted in high levels of penetration of multichannel television and the rapid adoption of broadband Internet services. This analysis adopts Livingstone’s (2003) proposition that studies using the nation as the unit to test cross-national hypotheses about abstract or universal phenomenon should test the abstract hypothesis by creating a standard method, using etic categories and metatheoretical hypothesis testing. This study adopts this approach by using data from the specific countries being studied and a model that utilizes categories etic in nature (structure, conduct, and performance), a standardized method, and a unified reporting style of a longitudinal sequential policy history. Adhering to the dictates of the model requires a sequential description of the evolution of media policy and its effect on market structure. For this purpose, the study employs the industrial organization model as its descriptive tool.

Israel and South Korea—two of the most technologically advanced nations in the world—have provided relevant material for previous comparisons of policy issues and have served as benchmarks for evaluating third-country policies. Their respective media industries, however, have never been the focus of any direct comparative research. The justifications cited in other studies for comparing these two countries help overcome the methodological difficulty often created by post hoc justifications for ad hoc convenient circumstances (Livingstone, 2003).

Preliminary Considerations

Different Countries With Similarities: Israel and South Korea

Justifying a specific country comparison is not a trivial matter. Comparative media research, however, has spanned the globe, creating unexpected bedfellows, such as India and Switzerland (Buerkler, 2005), Australia and China (Fan, 2005), and South Korea and Canada (Park & McDowell, 2005), alongside the more obvious pan-European and pan-Asian comparisons (Blumler, 1992; Humphreys, 1996; Oba & Chan-Olmstead, 2005). South Korea and Israel share in historical, geopolitical, social, and economic characteristics more than initially meets the eye and enough not only to justify a comparison but even to beg one. Indeed, previous research has identified similarities and differences between the two countries in other fields. Paul (2000) cited the cases of both countries to explain nuclear proliferation policies, at the same time taking note of...
their seemingly different “analytical categories.” Maman (2002) justified his study of the emergence of similar economic systems in the two countries by noting that Israel and Korea are examples of two nations that have enjoyed extended periods of exceptional economic growth, despite the absence of natural resources. In both countries, the governments have played a central role in economic development. Both countries have been the beneficiaries of American financial aid and reparation payments from former enemies, and in both countries, national security plays a vital role in government policy making. Levi-Faur (1998) used his comparative study to demonstrate that the East-Asian developmental model can explain development in other regions of the world, specifically Israel. In relation to economic development, he found two other similarities between Israel and South Korea: extensive modernization by colonial regimes and limited access to foreign capital in the developmental stage. Alamaro (2002) believed that the resolution of conflict and hostilities between Japan and South Korea, following the lengthy Japanese occupation of South Korea, should serve as a model for a lasting peace between Israel and the Palestinians (although Israel is the occupier in this case). Hussein and de Mellow (1999) justified their comparative study of capital mobility in Israel and South Korea (among other countries) by citing the similarities in their developmental background. Cavusgil (1997) ranked both high on the list of emerging markets in the 1990s. Yu, Lee, and Lee (2004) used both countries as benchmarks for studying Taiwan’s spectrum fee regulation, the only telecommunications policy-related comparison we have come across to date.

What initially motivated this study were the high penetration and usage levels of a myriad of telecommunication technologies, including broadband Internet and multichannel video, observed in both countries: The rates of penetration of both multichannel video distribution and Internet (73% of households in South Korea and 43% of households in Israel at the end of 2004) were at the time among the highest in the world in both countries.1 This phenomenon has drawn the attention of scholars, governments, and businesses, particularly because the two markets have different structures and are governed by different policies, raising questions about the cause and effect relationship between policy and market performance.

Israel and South Korea share similar structural and cultural traits. They boast similar levels of GDP per capita, similar levels of literacy, and other quality-of-life standards used by the United Nations’s “Human Development Index,”2 which groups both countries in the same category of development. Per capita income and literacy levels, two components of this index, have been known to serve as good predictors of media consumption and penetration in a given country (Yang &

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1www.moc.gov.il/new/documents/about/presentations/lect_pp3.11.04.ppt
2http://hdr.undp.org
Beyond all the similarities mentioned previously, what provides specific justification for this study and highlights its significance is the fact that in both countries, the cable industry began to challenge the dominance of terrestrial broadcasting and expand in the 1990s.

It should be mentioned that the cable industries in both countries were the subjects of studies in the 1990s, a period we will term the *old order* for the purpose of this study. Han and Won (1995), Gandal (1994, 1997), Weimann (1995, 1996), Bae and Baldwin (1998), and Schejter (1999) all described some aspect of the cable industry in each country. Their findings provide us with important data about the early development of the industries but nothing about their evolution in the postmonopoly era. This comparative study, therefore, provides an opportunity to update existing data and analyze more recent developments. Recent comparative studies, which have included South Korea, have concentrated on other aspects of the industry, such as policies regarding satellites (Park & McDowell, 2005) and convergence in telecommunications (Wu, 2004). Oba and Chan-Olmsted (2005), who discussed cable policies in various Southeast Asian countries, referred to South Korea only within the context of the old order.

**AN APPROPRIATE MODEL**

No two countries are identical, and neither are any two processes. A meaningful deductive study requires a model that allows for generalization within a given framework that supports it.

McQuail et al. (1992) proposed studying changes in the media landscape through a sequential model that demonstrates the evolution of change while identifying the external forces affecting it, the amount of conflict involved, and the eventual amount of fragmentation reached in the system (see Figure 1). The external forces in this case may consist of “would be” participants in the market, governments, transnational media, and others who believe they stand to benefit from the termination of the monopoly. The *conflict* in this case may be played out on the

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3In addition to these economic similarities, the two countries exhibit cultural similarities. Both South Korea and Israel emerged out of a restructuring of borders that followed World War II. Both countries place great emphasis on national sovereignty, surrounded as they are by culturally and politically dominant neighbors. Both countries are strongly aligned with the United States, without whom their viability lies in question. Both are homogenous societies in which ancient tradition plays a major role, although Israel is also home to a large minority. Because of their demographics and their cultural distinction from their neighbors, the Israeli and Korean markets have a limited potential in terms of the number of subscribers and the scope of content and advertising.

4In an earlier version of their study, they discussed other possible explanations, such as the vision for the information society and the global logic of deregulation, for the change in policy (McQuail & Euromedia Research Group, 1990).
economic, political, cultural, social, or technological sphere. The amount of fragmentation will be evident in the number of players operating in what we term in this study the *new order*, the regulatory regimes that emerged in the post-monopoly era, the diversification of legal structures governing the industry in its new format, and the fragmentation of audiences previously served by the monopoly. Other comparative studies describing changes or drivers of change in media and telecommunications markets have used, among other methods of analysis, an industrial organization model (Oba & Chan-Olmstead, 2005), a stakeholder analysis within an industrial organization model (Mesher & Zajac, 1997), and a rich description of policy initiatives (Fan, 2005).

In the case of the cable industry, government policy is a major influence, if not the exclusive determinant, of market structure, and the sequential model provides a method for identifying it. It does not, however, question or analyze market effects of the policy, and for this purpose, we have adopted the industrial organization model. Indeed, assuming a cause and effect relationship in structure-conduct-performance types of descriptions is problematic (Hendricks, 1995). However, policy, as stated, is a key factor in determining cable television market structures, and as such, bears a plausible hypothetical influence on market performance.

**RESEARCH QUESTIONS**

We have come up with three research questions based on these preliminary considerations:
RQ1: How did cable policy evolve in South Korea and Israel?
RQ2: What was its effect on the market?
RQ3: What lessons can be drawn from this comparative study?

METHOD

The adaptation of the McQuail et al. (1992) model to the evolution of the cable industry and the incorporation of the industrial organization theory in assessing policy effects was undertaken in the following manner:

1. A historical description of the policy, which discusses characteristics of the old order, destabilizing forces, conflict, provisional policies, market testing and the new order, is presented to explain the components of market structure: the number of competing firms, the licensing policy, and the vertical integration policy.

2. The policy effects on the market are deduced from data regarding the pricing of both multichannel television and broadband Internet services and their penetration rates. Pricing is seen as an expression of conduct and penetration rates as an expression of market performance.

COUNTRY DESCRIPTIONS

Industrial Organization During the Old Order

**Old order structure.** The old order of cable television policy in South Korea dates back to the installation of community antenna television in the late 1960s. The Broadband Cable Television Law that came into effect in 1991 created the legal framework for conducting business and licensing and established a body to regulate the industry, the Korean Cable Television Commission.\(^5\) By the time the Ministry of Public Information (MPI) reported plans to introduce broadband cable television to President Young-Sam Kim in 1993, there were 875 cable television companies already providing a retransmission service known as narrowband cable (Sahangshik Lee, 1999).\(^6\)

The introduction of broadband Cable, essentially a full service multichannel television service, in 1995 defines the old order—a true multichannel monopoly cable service that was not based on retransmission from broadcast networks, also viewed

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\(^5\)There were intense debates on several issues regarding this legislation such as government involvement in franchise licensing, the licensing requirement for program networks, the limits on the Korean Cable Television Commission’s role in delineating content, cross ownership rules, and so forth.

\(^6\)Some of the narrowband cable companies had been upgrading their networks up to 300Mhz by 1994. They retransmitted five Korean terrestrial broadcast channels and a few foreign satellite channels.
by the government as a completely distinct service. Cable television was seen as a tool to advance the creation of an information society and to cope with the spillover of foreign satellites from Japan, Hong Kong, and Mainland China (Ministry of Public Information, 1996). To this end, 53 cable operators and 27 program networks were licensed in the metropolitan cities, and two network builders were selected.

The old order was characterized by three unique South Korean structural decisions: First, as mentioned, it was viewed as a separate entity from the previous narrowband service; second, it was a unique tripartite system in which vertical integration between program providers, cable operators, and network builders was prohibited, as was ownership by the large Korean conglomerates (chaebols), by foreign corporations, and by more than one business; third, content was subject to strict regulation, which barred the operators from producing news programs and enforced a “must carry” requirement for terrestrial channels and all licensed program providers. Licensing for program providers explicitly stipulated the genre of programming they were required to carry and their target audience.

Israel’s old order, on the other hand, developed along different lines, while incorporating some similar goals and assumptions concerning the role of cable television. Cable television service was introduced in Israel in 1991, after a 1986 amendment to the telecommunications law created a regulatory body—the Cable Broadcasting Council—and a legal framework for licensing. Its introduction came in direct response to the rise of illegal local cable systems, which provided low quality and pornographic programming from primitive neighborhood-based distribution facilities that were often run by organized crime groups. Cable was envisioned and designed initially as a local community television service providing local content through 31 regional franchises. One reason for this was to create an alternative to over-the-air broadcasts from neighboring countries, and it soon began offering a unified national package of programs through only seven corporations. Because the law mandated that local franchises provide content (full vertical integration), a program purchasing and packaging cartel that was comprised of all the operators developed a uniform national vertically integrated system that broadcast over the air television (a “must carry”), five national thematic channels owned by the operators, and a hodge-podge of international satellite channels. This was in itself a reversal of the initial policy recommendation to refrain from such extensive retransmission (Schejter, 2005). No policy existed regarding the creation of independent programming, but there were regulations that dictated program genres and set minimum amounts of desired programming. At the same time, cable operators were prohibited from broadcasting or producing anything beyond local news programming as well as from carrying advertising.

Old order conduct. Traditionally, conduct has been associated with pricing strategies, but in the old order that existed both in Israel and South Korea, regulators initially set prices. The South Korean MPI approved a monthly fee of 15,000
Won (US $12.50) for multichannel cable television’s 27 channels in 1994. From 1995 to 1998, it regulated channel offerings through system operators to guarantee more choice for subscribers and to promote the financial stability of the networks (Korean Broadcasting Commission, 2001b).

In Israel during 1994, 7 3 years after the first licenses were awarded, subscribers paid cable rates of NIS 95 per month (approximately US $328). In 1996, the price of the uniform package provided by the cable companies, one that offered no tiering option, was US $40, a regulated price that was considered to be among the highest in the world (Belizovsky, 1996b). A report published by the Israeli central bank (Bank of Israel, 2002) found that between 1994 and 1999, the price of multichannel television services rose more than 20% above the rate of increase in the consumer price index.

Old order performance. In South Korea, acute competition with narrowband cable, relatively high costs, poor quality service,9 and the absence of tiering were seen as obstacles to the earlier diffusion of broadband cable. A year after the cable industry had been launched (i.e., 1995), only 4% of South Korean households subscribed to broadband cable television, and only 13.9% of the homes passed had become subscribers. This was far lower than had been anticipated. As Figure 2 shows, penetration reached 11.2% of all households by 1996 and 17.4% by 1997, when the number of Korean households subscribing to broadband cable totaled 2,529,782 (Korean Broadcasting Commission, 2000).

Nonpaying viewers, it should be noted, accounted for two-thirds of the total number of broadband cable subscribers in 1997 (see Figure 2) for two reasons. First, the MPI forced broadband cable companies to acquire subscribers rapidly, and second, narrowband cable companies selling illegal multichannel services at low prices forced the broadband cable companies to offer their own services cheaply (even for free, in some instances) at the introductory stage. These factors, in turn, led to a high churn rate following the free viewing period. The international foreign currency crisis that plagued South Korea in 1998 was another factor behind the drop in the penetration rate of broadband cable subscribers from 17.4% in 1997 to 6.7% in 1998. Narrowband cable television, however, was offered for about 3,000 Won (US $2.50), and 47% of South Korean households subscribed to this service in 1998 (see Figure 2).

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7As with penetration rates, multichannel television prices in the early years of cable service were not publicized systematically. Growing consumer awareness and the emergence of competition since 2000 have made these figures more readily available. In the 1990s, evidence of cable prices was mostly a result of media reports regarding regulatory intervention in pricing.

8The Knesset State Comptroller’s Committee requested that the minister of communications impose a lower price cap on cable prices following a review of the state comptroller’s annual report that exposed irregularities in the cable council’s operations (Zrachia, 1994).

9Poor after-sale services, fuzzy pictures, frequent outages as a result of bad networks, limited content, and so forth.
Despite relatively high prices, a vertically integrated system, and no option of tiering, Israelis adopted cable television\textsuperscript{10} at record rates. Cable service was first introduced in Israel in 1991. By 1992 some 400,000 households had become subscribers (31\% of all households; Weimann, 1995). This was 46\% of the two-thirds of households passed. By the summer of the same year, more than 50\% of households in the areas where infrastructure had been laid had cable service (Lehman-Wilzig & Schejter, 1994). By mid-1994, 61\% of households subscribed (Blumenkranz, 1994), and in 1996 the Cable Television Council released figures claiming that 70\% of households were subscribers (Belizovski, 1996a),\textsuperscript{11} all within a matter of 5 years (see Figure 3).

\textit{Early destabilizing pressure.} From the start, broadcasters, government officials, and consumers created pressures that had a destabilizing effect on South Korean cable policy. The tripartite system was the source of frequent conflicts among

\textsuperscript{10}The data regarding penetration levels of cable television service in Israel in the early years are imprecise, since no official numbers exist, and the numbers cited by different sources are inconsistent because they rely on different methods of calculation and different definitions of penetration rates. In later years figures were published by two official sources: the cable council and the Central Bureau of Statistics. But since these two sources used different methods of calculation, their numbers are not necessarily similar.

\textsuperscript{11}The Central Bureau of Statistics (CBS), however, only started documenting cable penetration in 1997, at which time it set the rate at 66.6\% of households. The cable council only started publishing official figures on penetration in 2000 when satellite service was introduced. At that time it put the total number of households subscribing to cable and satellite service at 1,317,000, of them 1,230,000 cable subscribers (71.6\% of all households), almost matching the figure of 70.1\% published by the Central Bureau of Statistics. More than 76\% of Israeli households subscribed to cable and satellite service in 2000, with satellite service accounting for less than 5\% of the total.
the different companies (Korean Cable Television Association, 1996; Korean Information Society Development Institute, 1996; Sahangshik Lee, 1996). Subscribers complained about the poor quality of services and the high price. Broadcasters and policy researchers urged deregulation. Both broadband and narrowband companies resorted to questionably legal actions to improve their market position. Broadband cable operators entered merger agreements, while narrowband cable companies increased subscribers by providing multichannel services, which were almost identical to those provided by the broadband cable companies. In addition, narrowband cable companies began upgrading their networks to the level of broadband cable networks, without obtaining proper licensing.

Jurisdictional disputes between the MPI and the Ministry of Information and Communication (MIC) were another byproduct of this regulatory regime. In accordance with the Narrowband Cable Management Law, the MPI insisted that narrowband cable television only relay terrestrial broadcasting. The MIC, however, sided with the narrowband cable television companies, insisting that no law prohibited them from retransmitting foreign satellite broadcasting.

In Israel as well, consumer complaints about high prices aroused considerable public and political debate in the 1990s. The main destabilizing pressures on the system in this case, however, came from broadcasters and from the antitrust authorities. The antitrust commissioner ruled that cooperation among regional franchises was illegal. A drawn out legal battle in the antitrust court affirmed that ruling, thereby mandating a new policy. Members of academia and some government officials also expressed concerns about the extreme concentration of power in the market. They noted that the newspapers with the largest circulation in the country, which were also major shareholders in the single commercial broadcaster, had now become major shareholders in the cable companies. Another source of instability was the constant bickering among governmental bodies charged with overseeing the industry. The Cable Broadcasting Council was at first backed in its policies by the Communications Ministry. Following elections in 1996, however, it attempted to gain more independence by creating a separate
administrative body, against the wishes of the ministry. Tension was evident as well among the Communications Ministry, the Justice Ministry, and the Treasury. Each government unit envisioned different goals for future policy, which caused the decision making process to be drawn out and the design of the new order to be undertaken in a piecemeal manner.

**New policies.** South Korea’s MPI announced a five-year plan for an advanced broadcasting system in July 1995. Its basic goal was to deregulate the cable television industry by allowing horizontal and vertical integration (Ministry of Public Information, 1995). In February 1997, the MPI allotted 24 licenses for broadband cable operation in small and medium-sized cities and rural areas. The Korean Cable Television Commission permitted news reporting by cable operators in January 1998. Government policy aimed at revitalizing the stagnant cable industry eventually resulted in tiering becoming part of the multichannel offering in 1999. The actual conversion of the recommendations into law, through a revision of the Broadband Cable Television Law, was only undertaken in January 1999.12 According to the revised law, chaebols and foreign companies, previously barred from investing in the industry, were allowed to hold up to 33% of the shares in cable companies. The revised law permitted one cable operator to own a maximum of seven companies. The decision to allow vertical integration enabled system operators to build their own networks. The changes also allowed cable operators to access telephone company facilities for telecommunications service provision and to provide cable Internet and cable telephony.13 In November 1998, newly elected President Dae-Joong Kim ordered the establishment of an advisory committee to present recommendations on a major overhaul of South Korean broadcasting that would incorporate neo-liberal principles. The advisory committee proposed unifying the Broadband Cable Television Law and the Narrowband Cable Management Law and providing joint jurisdiction to the MPI and the MIC. It also recommended adopting a duopoly system of cable operators to enable narrowband cable companies to obtain licenses (Presidential Advisory Committee for Broadcasting Reformation, 1999) and absorb narrowband cable subscribers into broadband cable. The report recommended that program networks not be subject to licensing, but be required only to register, effective January 2001, in an effort to breathe new life into the stagnant production industry. The new Broadcasting Law, which was approved in January 2000, adopted these recommendations.

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12 The revision of the broadband cable television law was delayed because of political infighting between the country’s ruling and opposition party.

13 Cable system operators are required to obtain a license from the Ministry of Information and Communications to provide cable telephony services, according to the *Chonki T’ongsin Kibonbop* (i.e., Electronic and Telecommunication Basic Law). However, there is not any regulation for a cable system operator to provide cable Internet services through telephone company networks.
Changes in Israeli policy also were adopted in a piecemeal fashion. Starting in the mid-1990s, new legislation was passed that aimed at developing a content industry and generating competition among providers. A new structure of limited vertical integration was formed in 1995. It legalized the cooperation in programming among the regional operators in principle but limited their common ownership of channels to 40% of the local thematic channels offered. Operators were forced to divest themselves of their holdings in other channels, thereby creating for the first time a semi-independent programming industry, albeit one at the complete financial mercy of the operators. In 1997, following a change in Israeli election laws that strengthened the power of the smaller parties in parliament and the election of a government with a strong neo-liberal agenda, a new law was initiated that provided for the creation of government-licensed channels for immigrants, minorities, and special interests on one-sixth of the operator’s capacity. This was done to increase diversity in programming and demonstrated just how powerful minority interests had become. A better reflection of the new government’s neo-liberal ideology came in the form of a 1998 amendment that established the legal framework for awarding licenses to digital satellite operators as part of a new “open skies” policy. The final change undertaken was a major overhaul of the Telecommunications Law in 2001 that promoted deregulation. This change created for the first time a licensing regime for independent program providers. Even more significantly, it allowed cable operators to provide broadband Internet access and created the framework for a national cable operator (comprised of the three operators left after many of the others had merged, some without obtaining the necessary regulatory approval). The revised law imposed the structural separation of three entities: the owner of the infrastructure, the provider of the multichannel video service, and the provider of the broadband Internet service. This separation, however, did not require the owners to divest themselves of any of their holdings. In other words, all three entities could be under the same ownership or own one another. The purpose of the separation was to allow transparency and access to competing service providers on the cable infrastructure. Internet service provision itself was left for third party Internet service providers (ISPs), as vertical integration was prohibited.

The Industrial Organization During the New Order

New order structure. The neo-liberal new order in South Korea, established in 1999, was motivated by the effects of the international foreign currency crisis on the Korean economy. It marked an abrupt end to heavy government intervention in the cable television market. The new order called for perfecting competition among several market players: cable television and Direct Broadcast Satellite (DBS), cable

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14The term minorities is loosely used here, referring mainly to minorities within the Jewish population.
television and telecommunications, two broadband cable television operators, and numerous program networks. The Korean Broadcasting Commission completely eliminated regulation requiring cable operators to be owned by chaebols, and in March 2004, allowed foreign investment to hold up to 49% of the shares in these companies. The structure of the industry, in response to the new regulatory regime, changed dramatically. The total number of program network companies jumped from 28 in 1994 to 121 in June 2001,\(^\text{15}\) and to 165 in 2002, 123 in 2003, and 159 in 2004 (Korean Broadcasting Commission, 2004). As of April 2005, 171 network companies operated 415 channels (175 television channels, 39 data channels, and 201 radio channels).\(^\text{16}\)

The Korean Broadcasting Commission awarded 33 licenses in 2001 and nine licenses in 2002 for broadband cable services to former narrowband cable television companies, and 181 (23%) of narrowband cable providers switched to broadband cable business. The existing broadband cable companies protested the introduction of a duopoly in the industry and eventually sued. The Korean Cable Television Association claimed the duopoly regime violated the constitutional guarantee of property rights,\(^\text{17}\) but withdrew its lawsuit in 2003 under political pressure. The companies who failed to enter the broadband cable television market also brought legal actions against the Korean Broadcasting Commission, insisting that the Korean Broadcasting Commission had awarded licenses to unqualified candidates and that these licenses were, therefore, void. DBS (SkyLife), in which KT is the single largest shareholder (27.4%), and which has a partnership with the three major terrestrial broadcasters (who jointly hold 18.2%),\(^\text{18}\) was launched in 2001. KT requested permission from MIC and Korean Broadcasting Commission (which agreed in June 2005 to operate a joint policy committee) to provide IPTV, a move strongly opposed by the cable operators.

The move to neo-liberal policies in Israel was not as swift and far-reaching. It resulted from several factors: the 1985 economic stabilization program (following years of hyper-inflation), the constitutional revolution of the 1990s, and the growing power of nonelected bureaucrats in the process of national policymaking (Ben Bassat, 2002; Hirschl, 1997; Sharkansky, 1997). The Israeli new order advocated full facility-based competition at the infrastructure level. The separated cable infrastructure corporation had to compete with the satellite provider in multichannel television services and with Bezeq, the national Postal, Telephone, and Telegraph (PTT), in access to ISPs. The separation between broadband access and ISP service was identical to that applied to Bezeq, which at the time was still controlled by

\(^{15}\) The programming registry came into effect in March 2001.


\(^{18}\) http://www.skylife.co.kr/index.html
the government. Structural separation and providing telecommunication services (mainly telephony) by a set deadline was the condition established for the merger of the cable operators. Market and audience testing of the new regulations started gradually in Israel. Limited vertical integration was implemented soon after the relevant legislation was passed in 1996. The launching of channels on the government portion of the network, however, took considerable time. Only a home shopping network, a Russian-language channel, and a music channel were created.

Although a licensing regime was set up for independent content providers, only a few emerged and folded. This pattern was probably due to a combination of cumbersome licensing procedures, domination of cable operators over access to consumers, and uncertainty regarding the potential commercial success of such ventures in the volatile economic reality that characterized the years of the second Palestinian uprising (i.e., 2000 and on). Operators continued to manage content through commercial agreements.

The cable companies tried to block the introduction of DBS in court, claiming the monopoly they were awarded during the licensing process in the early 1990s was for the provision of multichannel television on all platforms and not only cable. They succeeded only in delaying the process after the court rejected their petition. The government awarded the DBS operator a 9-month grace period in which it alone was allowed to provide a service based on tiers. This arrangement also was challenged in court and resulted in a landmark decision, which upheld the right to award a new competitor certain advantages over an existing monopoly. The DBS operator, “Yes,” was a joint venture in which Bezeq held a major stake, which eventually grew over time. A unified cable brand was created, however, for both multichannel distribution and Internet access, although the operators had not fully merged because they failed to meet some of the conditions for a merger.

**New order conduct.** The new order allowed cable operators in both countries to set their own prices subject to minimal regulation. In Korea, the introduction of tiering in 1999 was concomitant with a price reduction in cable television service. Great variation in the channel lineup of tiers and the prices charged by cable operators led the Korean Broadcasting Commission to adopt a standard form of contract between cable operator and subscriber in September 2001. It recommended that cable operators provide at least three kinds of tiers for diversity and that the must carry package, the cheapest tier, include two public terrestrial broadcasts, a local access channel, and public channels such as the YTN news channel.

Broadband cable television companies began a price-cutting war by selling cheap tiers, in an effort to compete with narrowband cable television during their monopoly and to compete with one another after the duopoly in 2001. To compete with narrowband cable companies, 74.4% of broadband cable operators provided low tiers in the price range of 1,500 won to 5,000 won (US $1.30–$4.20). The com-
petitive pricing strategy of broadband cable companies continued with the introduction of DBS in 2001. As of December 2004, 80.7% of subscribers subscribed to one of the low tiers and paid less than 5,000 Won per month (US $5; Korean Broadcasting Commission, 2004).

Bank Hapoalim, Israel’s largest commercial bank, reported in mid-2001 that since the introduction of DBS the price of cable multichannel television service had dropped (in real terms) beneath its level in 1994 (Sharvit, 2001). This finding was confirmed by the Bank of Israel, which attributed this short-lived spurt of lower prices (relative to the CPI) over the course of 2 years, 2000 and 2001, to the introduction of DBS. By 2002, a study in the daily Haaretz concluded that competition raised the price, but improved the service (Horesh, 2002), a justification commonly cited by the cable operators (Balint, 2003) as they pointed to the digitalization of their network and the greater choice of programming they were offering. The continued rise in prices brought the basic tier price in January 2003 to a range of NIS 154–165 (US $31.80–$34.60). By July of that year, the price had risen to NIS 169.90–173 (US $38.60–$39.50). This price, charged both by cable and satellite providers, was still beneath the cap that applied at the time to cable companies (who were still regulated as monopolies), which was NIS 183.70 (US $42).

Performance in the new order. The rapid improvement in performance in the new order, as demonstrated by higher penetration rates, contrasts sharply with the sluggish performance evident during the old order period in South Korea. The dramatic increase in broadband cable television penetration rates is widely regarded as a direct consequence of policy changes. Two specific policies—one that enabled narrowband cable companies to obtain licenses for broadband cable television and another that authorized the sale of tiers starting in 1999—contributed to a mass move into lower tier services and transformed the industry dramatically. The competition that emerged between the two broadband cable television services resulted in the cannibalization of the majority of narrowband cable subscribers by the broadband operators. The percentage of households with broadband cable television jumped from 20% in 2000 to 37.2% (5,614,017 households) in 2001, right after the first licenses were allotted. After the second group of licenses was allotted in 2002, penetration reached 57% in June 2003 and then 69% (11,724,055 households) in June 2004, all this despite competition from satellite broadcasting. The natural migration of narrowband cable subscribers to the lower tiers of broadband cable resulted in an extraordinary increase in the percentage of low tier subscribers among the total number of broadband cable subscribers, from 46.8% in 1999 to 80% in 2004. By contrast, the percentage of high (basic) tier subscribers dropped from 44.9% in 1999 to 16.9% in 2004 (see Figure 2). The churn rate of the basic tier increased because of financial insecurity following the foreign currency crisis.
In Israel, following the introduction of competition, the total number of subscribers in 2001 accounted for more than 76% of all households, with the share of satellite subscribers less than 5%. As of 2002, both the CBS and the Cable Television Council identified a trend of declining penetration that continued in 2003, when the number of Israeli households subscribing to cable and satellite service totaled 1,415,000 or 70.6% of total households, according to the CBS. In 2003, the percentage of Israeli cable and satellite subscribers combined was lower than in 2000, when competition was launched (see Figure 3). We believe this decline can be attributed to the economic crisis Israel was undergoing as a result of the Palestinian uprising and the fact that the limited competition did not lead to price reductions, as we demonstrate later on.

Broadband Internet

**Structure.** Thrunet, the largest cable network builder in South Korea, launched cable modem services in June 1998. In June 1999, KT added ADSL services. Competition in the broadband Internet market intensified, however, with the launching of Hanaro Telecom’s Hanafos service in April 1999, followed by KT Megapass in May 2000. In Israel, cable companies were not allowed to provide Internet access until after the legislative changes of 2001. As a result, Bezeq’s ADSL service emerged as the preferred technology. Just as in the multichannel market, the licensing of the cable companies to provide broadband access resulted in a duopoly with Bezeq.

**Conduct.** With the expansion of competition in South Korea, price wars waged. Broadband Internet service providers attracted new subscribers by offering such incentives as free installation—with monthly subscription prices totaling about 30,000–50,000 Won (US $25–$41.66). As Table 1 shows, cable operators offered a price competitive with that offered by the telephone companies. Cable operators also initiated bundling services of broadband Internet service with free multichannel television service. The Korean Broadcasting Commission forced them to discontinue this unfair marketing strategy in the licensing renewal process in 2004. Since 1998, the bottom line prices of broadband Internet services provided by cable operators have decreased, and more options have been offered to subscribers in a wide price range.

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19 A figure calculated by averaging figures provided by the Cable Television Council and by the CBS.

20 In 2001, the CBS for the first time released figures on cable and satellite penetration combined, putting the rate at 73.2%. According to the cable council, however, the correct figure was 79% and still on the rise.

21 According to the CBS, 71.9%; and according to the council, 76.1%.

22 Cable operators did not pay reasonable fees for content to program networks, in particular, to the stations with weak bargaining power, their justification being they could not pay the fee because they provided services free of charge. The Korean Broadcasting Commission concluded that this behavior was unfair.

Price wars were not a dominant feature of the Israeli broadband market. In fact, as Table 2 demonstrates, the contrary occurred. The price of prebroadband unlimited Internet access, offered in Israel only by Bezeq, was fixed at NIS 99 (US $24.75), not including the regulated consumer access charge of NIS 42 (for a total of US $35.25). A nonregulated fee paid to the ISP was added. The data show that rapid broadband penetration was not accompanied by a price war. The initial price for DSL access, set through government price caps, was NIS 149 (US $37), almost identical to the price of the unlimited dial-up service it replaced. Apparently, this initial price put off consumers because a year following the launch of broadband Internet service penetration was 60% lower than Bezeq’s projections (Horesh, 2001a). With the introduction of cable modem service imminent, (according to the timetable foreseen at the time, the cable companies were to be awarded licenses in 2001) Bezeq requested to lower the price of the service and was granted permission to offer the service at NIS 99 (less than US $25), sparking greater consumer demand (Horesh, 2001b). The first cable operator to provide the service, however, offered two options: A 750kb downstream plan for NIS 119 (slightly less than US $30) and a 150kb downstream plan for NIS 109 (about US $27). This price was similar or even a bit higher than Bezeq’s. This adherence to a pricing strategy that paralleled Bezeq’s (and Bezeq’s adherence to a pricing policy that paralleled that of its competitors) has not changed in the 3 years since competition was introduced. In fact, the price of broadband access has never deviated beyond an occasional special offer, and has never fallen in real terms.

Performance. Penetration accounted for less than 3% of all households in Korea by the end of 1999. By the end of 2004, as Figure 4 demonstrates, the number of households subscribing to broadband Internet services totaled 10,845,957, representing a penetration rate of 63.9%, the highest in the world (Organization for Economic Cooperation and Development, 2004). The DSL service was most popular, accounting for 61.7% of the market, followed by cable modem, with 30%.

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**TABLE 1**

<table>
<thead>
<tr>
<th>Service Level</th>
<th>Light (1–1.5Mbps)</th>
<th>Pro (6–8Mbps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>KT (VDSL)</td>
<td>30,000 Won (US $25.00)</td>
<td>40,000 Won (US $33.33)</td>
</tr>
<tr>
<td>Thrunet (HFC)</td>
<td>28,000 Won (US $23.33)</td>
<td>34,000 Won (US $28.33)</td>
</tr>
<tr>
<td>Hanaro (HFC)</td>
<td>28,000 Won (US $23.33)</td>
<td>34,000 Won (US $28.33)</td>
</tr>
<tr>
<td>Onse (HFC)</td>
<td>—</td>
<td>40,000 Won (US $33.33)</td>
</tr>
</tbody>
</table>


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24http://www.oecd.org/dataoecd/40/16/34919335.xls
TABLE 2
Broadband Prices in Israel (June 2005)

<table>
<thead>
<tr>
<th>Service Level</th>
<th>64k/256k</th>
<th>64k/500k</th>
<th>96k/750k</th>
<th>96k/1.5Mb</th>
<th>128k/1.5M</th>
<th>150k/1.5Mb</th>
<th>96k/2Mb</th>
<th>150k/2Mb</th>
<th>150k/3Mb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly bezeq charge (NIS)</td>
<td>89.95</td>
<td>99.95</td>
<td>109.95</td>
<td>120.00</td>
<td>179.95</td>
<td>179.95</td>
<td>229.95</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly bezeq charge (US $)</td>
<td>20.45</td>
<td>22.71</td>
<td>25.00</td>
<td>27.30</td>
<td>41.00</td>
<td>41.00</td>
<td></td>
<td></td>
<td>52.25</td>
</tr>
<tr>
<td>Monthly cable charge (NIS)</td>
<td>99.00</td>
<td>119.00</td>
<td>149.00</td>
<td></td>
<td></td>
<td>449.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monthly cable charge (US $)</td>
<td>27.00</td>
<td>33.80</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>102.00</td>
</tr>
</tbody>
</table>

*Note.* NIS = New Israeli Sheqel.
by 2004. The higher penetration of DSL service was due to successful marketing strategies by the telcos. Hanaro Telecom concentrated on densely populated areas, whereas KT focused on existing local telephone subscribers.

In contrast to the multichannel service market, Internet and broadband services in Israel have known only an upward trend in their short history. In 1997 less than 5% of all Israeli households had dial-up Internet access. By the time broadband services were introduced in 2001, more than 22% of households had dial-up Internet access. By the end of 2001, 38,000 subscribers used DSL, the only available technology, a penetration rate of about 2.7% of all households. In 2002, however, the government licensed cable companies to provide access, and the numbers rose dramatically. By the end of 2004, as Figure 5 demonstrates, the total number of households with Internet access reached 920,000 (600,000 ADSL subscribers and 320,000 cable modem subscribers), a penetration rate of 43%, matched at the time internationally only by South Korea.

DISCUSSION

Comparing the Old Order

*Similarities in regulatory structure.* As the data demonstrate, the old order was established in both Israel and Korea through similar legal procedures. The dif-

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25The number of Internet subscribers has been documented since the mid-1990s. The available official figures, however, refer only to dial-up services. The figures on broadband Internet access have been documented separately and do not allow identifying of consumer upgrading trends. Both dial-up and broadband access are better documented, however, than multichannel television penetration, and the shorter time line allows simpler and more accurate analysis.

26Total Internet subscriber figures beyond 2002 have yet to be published.
ferences in detail between them is explained by political culture and tradition. In both countries, media regulation has been influenced by the fear of transborder broadcasts, and both countries assumed that establishing cable services requires sector specific legislation and launching the service requires licensing. The similarities between them extend to the bureaucratic structures chosen as well, with both countries establishing industry specific regulators for the new industry. Even the content of the regulations adopted in the two countries contain some common features that highlight the paternalistic approach of both governments. In both countries, for example, cable operators were prohibited from broadcasting their own news programs and were forced to carry terrestrial channels that were subject to strict content regulation. In South Korea, separation of content and conduit assured continued government supervision of content through separate regulation, but in Israel, cable content was supervised directly, and the fully vertically integrated industry served as a useful tool for control.

**Differences in regulatory structure.** In the old order, the underlying philosophy of cable regulation differed in the two countries, and by definition, dictated different regulatory structures. South Korea saw the broadband cable industry as a tool for developing a program market imposed strict prohibitions on vertical integration and developed a licensing scheme to create program providers. In Israel, the old order was based on the idea of limited content and community television. The industry

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27As mentioned, regarding cable in Israel, transborder broadcasts were mentioned as a concern in initial policy documents, however the eventual policy allowed for their retransmission.

28In Israel they were required and allowed to broadcast local news but not national news.
was consequently characterized by full vertical integration, with cable operators assigned the task of programming, and no procedure to license independent program providers enacted. In South Korea, competition developed between two types of multichannel video distributors and foreign investors were banned from entering the market. But in Israel, foreign investment was encouraged up to a limit.

**Outcomes of the old order.** The different structures generated different outcomes. The price of cable services in both South Korea and Israel was subject to controls, and in both countries, the price was perceived as high. However, penetration in Israel was high, and in South Korea penetration was low.

**Destabilizing Factors**

The destabilizing factors, which created the need for a new order in both countries, were on the whole similar. Internally, they found expression in questionably legal acts undertaken by the cable operators (in South Korea, the expansion of narrowband programming, and in Israel, the creation of the programming cartel). Externally, the conflict between the various regulatory bodies (in South Korea, the communications and information ministries; in Israel, the communications, justice and finance ministries), friction between program suppliers and cable operators, consumer complaints regarding level of service and price, and criticism from academic circles regarding the structure of the industry served as the catalysts for change. Both countries also experienced at the transitional stage the rise to power of new governments espousing neo-liberal ideologies.

**Provisional order.** Although the actual policies implemented in the two countries during the old order were different, the underlying ideology behind the proposed changes leading to the new order was similar. Both countries claimed they were deregulating, liberalizing and adopting market policies. These very broad headings may and did describe very different policies, but the processes leading to the new order during the provisional stage were analogous. In both countries, a new law was required to create the new order. It gave rise to similar objections by the existing market players, who petitioned the courts arguing that the new regulatory frameworks were illegal. In both cases, these claims were rebuffed. It should be mentioned that in Israel this stage involved three separate steps: the creation of a new programming policy, the launching of competition in multichannel video distribution, and the launching of broadband Internet access. In South Korea, changes in the multichannel video distribution market were undertaken simultaneously.

**Comparing the New Order**

**Similarities in regulatory structure.** In both countries, the new order consisted of limited vertical integration. The old ban in Korea was eased and the *carte
blanche in Israel was limited. In effect, both countries adopted a policy designed to take advantage of economies of scale created by mergers among cable operators, while minimizing the dangers created by market concentration. In this way, a controlled level of market fragmentation was achieved. In addition, both countries strived to create competition in each of the markets in which the cable operators operated: competition with DBS in the multichannel video distribution market and competition with the telecom operator in the broadband Internet access market. As part of this policy, both countries allowed the telecom operator to acquire a limited, although critical, stake in the DBS operator.

Differences in regulatory structure. The fact that the South Korean market had a cable industry before the old order (albeit one that provided only retransmitted terrestrial signals) and that prohibitions on full multichannel video distribution were eventually lifted created a unique market structure in which two cable operators and one DBS provider supplied the service. Because consumers in Israel had only two options from which to choose in both multichannel and Internet access, the level of fragmentation in South Korea was far higher than in Israel—a direct outcome of government policies. Differences between the two countries encompassed the structure of the programming market as well. In South Korea, the system was deregulated and program providers were only required to register. In Israel, the new order required the licensing of independent program providers, which replaced a system with no regulatory framework to provide for the establishment of program providers. The outcome of these policies was that in South Korea the programming market flourished with scores of new suppliers, while in Israel, it did not. It follows that there also was greater program fragmentation in South Korea.

Market impact. In both countries, the new order brought with it the introduction of broadband access to the Internet. This new service turned out to be highly popular, with penetration rising at an unprecedented pace. In South Korea the new order succeeded in lowering prices. In Israel, however, the introduction of a new order had the reverse effect: higher prices which continued rising. Comparing the effects of the new order on penetration rates in the two countries is problematic. Penetration in Israel was already high before the introduction of the new order and dropped slightly thereafter, an indication of market saturation (more than 70% of Israeli households subscribed). This downturn may also have been related to the general economic slump in Israel, which had its roots in the Palestinian uprising. The penetration of DBS, however, was significantly higher in Israel than in South Korea, leading to more audience fragmentation at the distribution level amid less fragmentation at the programming level.
What Can Be Learned?

The model developed by McQuail et al. (1992) proved in this case to be a useful tool for analyzing change in media markets beyond the context of 1990s Europe. Indeed, the transition from monopoly to competition through the introduction of market policies by a government espousing a neo-liberal ideology can be studied by a sequential description identifying the old order, the destabilizing forces, the provisional order, and the eventual new order. Identifying the external destabilizing forces and assessing their outcome in terms of market and audience fragmentation has proven useful as well.29 The model also helped identify similarities and differences in policy development between the two countries.

Merely advocating competition, we conclude, cannot bring about positive change in an industry. In South Korea, the policies adopted during the new order were successful in increasing penetration and lowering prices. In Israel, however, the new order ushered in an era of lower penetration with higher prices. The differences between these two models of new order should, therefore, be highlighted.

The South Korean new order differed from the Israeli new order in one basic structural aspect: the number of competing service providers, which fragmented the service. In Israel, there are only two providers, but in South Korea, there are three. This explanation for the different outcomes, however, is too simplistic because the duopoly in Israel extended to broadband Internet access as well, where market penetration has been very high and continuously rising. The conclusion is that lower prices cannot be the only explanation for the phenomenal penetration rates witnessed in South Korea. Indeed, at the time that the old order monopoly existed in Israel, penetration rates of multichannel video were remarkably high and only began dropping after the introduction of competition.

Competition was apparently the key to price reductions in South Korea. This result is consistent with other studies such as Levin and Meisel (1991), Barrett (1995), and Emmons and Prager (1997). The more competitive market has resulted in greater connectivity and in low prices. But conditions of limited competition (evident in the Israeli new order in broadband access) and perfect monopolies (evident in the Israeli old order in multichannel video distribution) have also resulted in greater connectivity, in this case, along with exorbitant prices. Pricing, therefore, a conduct directly related to market structure, can drive penetration rates, an important measure of performance. However, as the Israeli market demonstrates, high penetration can be achieved with high prices and pen-

29 Audience, program, and content fragmentation will be discussed in a separate study.
etration can drop with competition, demonstrating that other factors must influence consumer behavior.\textsuperscript{30}

Another conclusion to be drawn from studying South Korea is that the presence of competition between platforms alone is not sufficient. To contribute to consumer welfare in the form of higher penetration and lower prices, competition needs to be present in all facets of the product. For this reason, the competition between narrowband and broadband providers in the era of the old order failed. The competitors were not operating under similar conditions and were subject to excessive regulation. Only when regulatory constraints were lifted from narrowband operators were they able to provide the market with a better product at a lower price (to the extent of dumping, as noted previously).

It is hard to weigh success in terms of industry and audience fragmentation. For some, like South Korean policy makers, fragmentation is the best indication of diversity, democracy, and free markets. For others, like Israeli government officials and social commentators, it is the purveyor of the debasement of society (i.e., Katz, 1996). As Napoli (1999) noted, the diversity card can be played in different ways, serving expedient political needs, and as Fu (2003) argued, it is not an inherent aspect of industrial organization explanations and descriptions of market outcome. Since this study centers on market outcomes of policy, fragmentation as an expression of competition is a positive outcome, as the case of South Korea demonstrates.

CONCLUSION

This study attempts to contribute to telecommunication scholarship by analyzing regulatory changes in the structural design of the cable industry and their effect on market performance. It compares two countries that made a transition from an old order of government planning to a new order of increased market autonomy, employing different structures, and highlights the differences between them in prices and penetration rates. With similar goals in mind and responding to similar pressures, South Korea and Israel created policies and market structures based on totally different configurations. The two policies differ, however, as do their outcomes, in terms of competition structure and market conduct (or prices). With regards penetration levels, however, the two markets have performed similarly. These differences and similarities can explain many of the successes and failures

\textsuperscript{30}Previous research on Israeli society has found that the infatuation of Israelis with technology had motivated their acquisition of communication technologies, such as televisions, VCRs, and cellular phones (Cohen & Cohen, 1989; Schejter, 1996; Schejter & Cohen, 2002). This explanation may hold here as well. It is notable that while Israelis were not connecting to multichannel television in greater numbers, their migration from cable to DBS was far more impressive than in Korea although the price was not lower. This phenomenon is congruent with the technological hypothesis.
in regulating cable markets. For example, more competition and limited vertical integration do contribute to lower prices. Lower prices, however, are not always the only factor behind higher penetration.

Testing these conclusions in other markets is required to make further generalizations and to reach judgment on specific policies. Future hot button policy issues, such as the impact on the industry of the introduction of telephony on cable and IPTV offerings by telecom operators, may have already begun creating destabilizing pressures that will result in another new order. An in-depth analysis of one process of dramatic change can facilitate policy makers as they face these new challenges.

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