

**SUBMISSION TO STANDING COMMITTEE ON COMMUNICATIONS,  
INFORMATION TECHNOLOGY AND THE ARTS INQUIRY INTO  
THE UPTAKE OF DIGITAL TELEVISION IN AUSTRALIA**

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**Summary**

Many media commentators argue that the rate of Digital TV (DTV) uptake by consumers is too slow and reflective of a poor policy framework. I'm not sure that the rate of DTV uptake is a fair indicator as to whether the current policy framework is working at this early stage. Any reasonable judgment must be held over for at least another three years. There is no need to panic or for the Government to make radical policy changes at this early stage.

In particular, I support the current policy framework for a mandated High Definition (HD) quota as a principle driver for the future development and uptake of DTV. I oppose any watering down of HD standards as I think this will lead to a 'lowest common denominator' approach to the ultimate detriment of the free to air (FTA) consumer.

The current policy framework, in my view, is aimed at maintaining equity and quality for FTA services. I believe that this approach is working when measured against criteria such as programming, enhancement of the viewing experience, availability of technology and increased affordability.

**Introduction**

I am writing this submission as a 'long term' DTV viewer. I have owned a 'HD Ready' TV since August 2001 and purchased a HD STB shortly afterwards. I guess I can be considered an 'early adopter' and have regularly contributed to the Digital Broadcast Authorities' (DBA) Forum in this capacity.

I am a resident of Canberra, where SD DTV has been available for some four years. The first native HD DTV transmissions commenced in March 2004 (HD test loop on WIN TV) and the mandated quota period started in about April 2005. At the time of writing, both Capital and Win regularly transmit HD programming. Prime are yet to commence any broadcasting. The ABC and SBS transmit have HD channels, but do not transmit native HD broadcasting (nor are they required to under the Government's current policy).

I support the current policy framework for a mandated HD quota as a principle driver for the future development and uptake of DTV. I oppose any watering down of HD standards as I think this will lead to a 'lowest common denominator' approach to the ultimate detriment of the FTA consumer and the Australian industry. In particular, I believe that any move to allow multichannelling at the expense of HD will act against the long term interests of the consumer and the quality of HA.

This submission argues in favour of the current policy framework, but with a few tweaks to encourage uptake and innovation whilst maintaining quality standards. Arguments are discussed against the following topics:

- Is the 'low' rate of DTV uptake a basis for policy change?
- Is multichannelling the answer (to drive DTV uptake)?
- What are the real disincentives to DTV uptake?

- Suggestions for changes to current DTV policy.

### **Is the 'low' rate of DTV uptake a basis for policy change?**

Many media commentators argue that the rate of DTV uptake by consumers is 'unacceptably' low and reflective of a poor policy framework. In particular, many commentators decry HD TV as unnecessary, expensive and unwanted by Australians. Few have suggested a coherent alternative policy except for multichannelling.

I think that most media analysis is tripe and still relies on arguments made back in 2000 when HD versus multichannelling arguments were rife and factions were established (eg Networks 9/10 versus Network 7). I'm not sure if the rate of DTV uptake is a fair indicator as to whether the current policy framework is working. If one makes the assumption that the current policy has been made with long term objectives in mind, it is too soon to provide any analysis as to 'success' or 'failure'. Indeed, the standards made today are meant to carry Australian TV into the next twenty years or more and should be properly judged against these sort of time frames.

Setting this 'longer term' argument aside, and the politics of FTA multichannelling competing with Pay TV, I am of the view that it can be argued that the current policy is working when measured against a number of key indicators such as technology, cost and programming.

#### *Technology*

DTV is a maturing technology and there is still some way to go before we see all the benefits. However, HD technologies, in particular, have been rapidly advancing and there are now half a dozen of more brands of HD STBs on the market and features/options will continue to be added. For example, a number of manufacturers are bundling hard drive recording devices with STBs. These will become increasingly attractive to purchasers moving away from VCRs.

The number of 'DTV Tuner' and 'HD Ready' TVs available continues to expand. Plasma, LCD TVs, rear projection TVs and projectors continue to improve in terms of resolution. LCD TVs will increasingly become the norm for sub-76cm HD capable TVs. Plasma TVs (in my view) will continue to dominate the bigger TV sizes.

By any measure, the availability of DTV equipment has expanded rapidly over the last three years and will continue to do so. In particular, HD capable devices have/are appearing alongside SD devices in equal model numbers because of consumer demand directly as a result of the HD mandated policy and the availability of broadcasts in the capital cities (and major regional centres from April 2005). This would not be the case if HD was not mandated and stations broadcast multiple SD streams. Yes, the uptake to DTV might be higher, but probably no HD devices would be available today in the market place and this lag would continue for some time (eg even when HD is the norm in key overseas markets, such as Japan, Korea and the USA, as is likely to be the case in 5 years).

Australia would then be at high risk of being left behind and being forced to replicate the current analogue to DTV scenario in 10 years time when it becomes obvious to everyone that HD DTV is widely available overseas and is the future, and that the SD equipment that everyone has purchased cannot be used to view a HD signal.

#### *Cost*

The print media still occasionally quotes \$20 000 as the cost of a HD DTV set-up. I understand that this estimate was provided by Alex Encel during earlier reviews into DTV policy.

In late 2001, when I purchased a HD capable set-up, the cost was \$4700 (\$4000 for a HD

Capable TV and \$700 for a HD). In 2005, the price of a comparable 'HD Ready' CRT TV is \$2000 and \$500 for a HD STB. A HD LCD is about \$2000-\$5000 and a HD Plasma about \$7000. This means that the price of entry into HD DTV has halved over about three years with the trend continuing to accelerate.

The minimal price for entry into DTV is a SD STB. The lowest current price is about \$150. Based on trends to date, it is reasonable to expect that SD STBs will be available for \$100 by the end of 2005. I believe that '\$100' is a bit of a psychological barrier for most people and that DTV take-up will exponentially increase once SD STBs are routinely at this price. While the main impediment will still be the capital cost of a new widescreen (WS) TV, these are no available at <\$1000.

I think it is fair to conclude that DTV, and HD DTV in particular, is becoming more affordable with each passing year and that this will continue to do so. Any claims that DTV and HD DTV are too expensive for consumers fades with each passing year.

### *Programming*

Many people deride the lack of DTV programming (and particularly HD) as illustration of poor policy. As a regular viewer of DTV it is apparent to me that this is not the case. For example, the majority of prime time programming is widescreen (WS). Advertising is about 25% WS, and increasing. There is even some HD advertising content.

All stations are required to broadcast their annual quota of 1080 hours of HD TV. As far as I can tell, and evidenced by ABA findings, all stations are easily meet this quota. Local productions, in particular, are of outstanding picture and sound quality whether HD or SD. Most networks are increasingly, or have, made capital investment for HD capable studios, cameras and post production editing as a direct result of the current policy mandating HD content. This can only bode well for the viewing public into the future.

### *Conclusion*

From where I sit (viewer of FTA who is after the quality of the TV viewing experience rather than quantity), the current policy framework has been a success in terms of delivering DTV and HD content to our screens, increasing consumer DTV/HD products and lowering costs, and allowing the commercial stations to experiment with programming.

The only negative charge that can be made is that DTV take-up is still relatively low because HD (or DTV) has not caught the public's imagination. Some argue that a change of policy to allow full multichannelling would cause rapid take-up. However, I would argue that the rate of take-up at this stage is not a critical issue and is better gauged as we get closer to 2008. I think that all the signs (as indicated by rapidly increasing sales of WS TVs and STBs) indicate that take-up by 2008 may well be close to 50% of households. Such an uptake, in the absence of mandated Government incentives for consumers, must be gauged a tremendous success by any measure.

### **Is multichannelling the answer?**

I am a regular contributor to the DBA internet forum and there is always debate about the benefits of multichannelling versus the current policy (eg mandated HD requirements and restrictions on multichannelling). Proponents of multichannelling argue that this option will drive DTV uptake and make it a huge success. Proponents of mandated HD argue that multichannelling will dilute quality as well as content and may ultimately leave us with a Pay/Subscription (with all the sexy content/quality) system and a second rate FTA system.

Why can't we have both? The answer partially appears to relate to limitations on spectrum that technically limits the broadcasting of native HD at the same time as several SD channels. This argument boils down to how the spectrum should be used: for high quality HD;

multichannels; or should the networks be free to do whatever they want? There may also be political constraints in terms of direct competition with the Pay TV sector and looking out for current Australian industry interests.

I am a proponent of the current system. I probably watch an average of about 14 hours of FTA a week (mostly as DTV) and one or two DVD movies a week. I haven't subscribed to Pay TV. I am more attracted to the quality of the viewing experience, whether this is driven by content or production/picture quality.

I believe, based on my own viewing experiences, that Australian FTA is pretty good by world standards. As a consumer, I would like to see this *status quo* maintained or improved. I certainly see DTV, and HD in particular under the current policy framework, as a driver for this because it will result in higher picture quality and associated production values, without diluting the content.

Setting aside my personal preferences for quality against quantity, I believe that any change in current policy to allow multichannelling may have perverse effects on the future of Australian FTA and disbenefit consumers in the longer term. My reasons for this are discussed below.

#### *Dilution of overall content*

Competition under a multichannelling policy would require the three commercial networks to double or triple their content to populate new channels (this assumes that Network Seven would multichannel and that the other commercial broadcasters would be forced to quickly follow to maintain market share). It is hard to see how quality of content can be maintained under a free for all scenario. For example, we could see a proliferation of 24hr shopping channels or regional 'info-bulletins'. I think that many viewers would not watch multichannels with poor content. It would certainly boost DTV uptake in the short term, but would not necessarily result in an increased viewing audience and corresponding revenue.

#### *Dilution of Australian content*

The need to increase content may result in a squeeze in local production costs (eg more TV for the same cost). While this could result in more jobs in the short term, it may not be sustainable into the future. For example, if an Australian audience, used to generally high quality local content, is increasingly turned off by lower quality content, they may desert such programming and be driven elsewhere to find quality viewing (eg Pay TV or DVD). Ultimately, it may be more cost effective for Networks hungry for programming to regionalise local productions (to meet any mandated requirements) and source higher quality material from overseas. This would erode the Australian production industry over time.

#### *Anti-competition*

A danger of unregulated multichannelling is that it would cause a shake out of the market that could result in the demise of a commercial broadcaster. Under this scenario, the Network best set up for multichannelling (eg Channel 7) would drive to increase audience share through multichannelling. For example, it could splurge to buy broadcasting rights for all major sporting events, such as the AFL, ARL, NFL and soccer. Once procured, it could multichannel preferred sports into the right markets. For example, Melbourne would receive a channel with saturation AFL coverage, while Sydney would receive an equivalent channel with saturation Rugby coverage. In this way, ratings could be maximised in both these markets and full advantage taken from resulting revenues. Such aggressive strategies would radically change advertising and squeeze those Networks without access to high rating sports events.

We could see a similar bidding war for prime sporting events as with the Super League wars of several years ago. That is, unsustainable bids being made for prime sporting events. At the moment, there is limited value in a station holding more events than it can broadcast on its single national station. Open slather multichannelling, with the ability to direct different

programming into different markets, would change all of this.

#### *Advertising revenue*

Proponents of multichannelling argue that this system would attract consumers to DTV in droves. This is no doubt the case in the short term. However, at what cost in the longer term? Australia, with a fairly static population (20 million), has a limited advertising consumer base (compared to the UK with 50 million and America with 200 million). Could Australia support another 10 channels and multiply the advertising revenue by ten? This seems unlikely, particularly given that a large portion of new channels would need to be niche driven in order to build a dedicated viewing base. If the advertising dollar is diluted, commercial rates are likely to fall and income revenues to Networks may not increase substantially even though they are broadcasting two or three channels more than now. Of course, the television advertising industry supports a multichannel approach as the balance of power would shift back to them as Networks scramble to attract advertising revenue.

While many viewers would welcome multichannelling, FTA TV could be increasingly positioning itself in the same market place as Pay TV. If this is the case, why not subscribe to the 100 or so channels offered by Pay TV to get maximum content choice. This could, in the long term, drive more advertising dollars away from FTA and further reduce money available for purchase or commissioning of high quality content.

Previous submissions by Channel 7 to DTV inquiries have suggested that 'while multichannelling should initially operate on a free to air basis, after 2007 services could be subscription-based' (Page 10 of the DCITA Issues Paper). This could further disenchant FTA viewers if they are forced into subscription to view the best quality programming and, again, eat into FTA advertising revenues.

#### *What is the Australian multiview/multichannel experience to date?*

Networks are allowed to 'multiview' certain world class sport events. Typically, the broadcasters operate two additional channels when in this mode: one with an alternative commentary; and the other providing game statistics. The advertising stream for the main channel and one of the additional channels may be different (at least in Canberra). While this might not technically constitute multichannelling, the different advertising streams might subjectively meet this qualification.

The public broadcasters are, of course, exempt from multichannelling restrictions. For a while, the ABC broadcast two extra channels (Fly TV and ABC for Kids). These were shut down by ABC management allegedly for budget reasons. SBS currently runs an additional foreign news channel and the ABC has started up a second channel mainly aimed at regional markets.

The above examples illustrate that the current policy framework does provide for some multichannelling and multiview, and allows the Networks flexibility to demonstrate innovation and trial new technologies. The evidence to date suggests that the uptake of these opportunities is low.

By contrast, the current policy has been successful in ensuring take-up by the Networks of HD programming and in making the technology available to the consumer at ever affordable prices. A switch to free for all multichannelling would certainly undo a lot of this progress and, in the confusion, perhaps hinder DTV uptake by the public or the commitment by Networks and production companies to high quality DTV.

#### *A fourth network?*

I understand that a licence may be issued for a fourth commercial network in 2006 or beyond. I assume that any such licence will allow digital transmission only. This could

obviously act as a driver for DTV uptake and contribute to a likely accelerated uptake over the coming years. The granting of a DTV licence only to the new Tasmanian operator has been very effective in driving STB sales in that State, as can be imagined.

The economics of a fourth channel would need to be considered by the applicants against the current operating rules, and noting the difficult nature in competing against the existing networks. Any move to multichannelling will make these economics even more difficult and increase the likelihood that Governments will have to offer incentives or dilute the controls that other commercial networks operate under to ensure the new station can establish an adequate market share. This would be very difficult in a 'free for all' multichannel environment in that the current operators would do everything possible to squash the new operator.

### *Conclusion*

I believe that a change to the current policy framework to favour multichannelling ahead of HD would be to the ultimate detriment of the Australian FTA system including through:

- dilution and loss of quality and Australian content;
- competition favouring survival of the fittest/biggest network at the expense of other networks or new entrants;
- competition with Pay TV further fragmenting market share and putting cost pressures on the FTA networks;
- perverse incentives for anti-competitive hoarding of major sport, and other, events to the detriment of the FTA viewer.

### **Disincentives to DTV Uptake**

In my view, the major disincentive to DTV uptake is simply that people expect a TV to last at least five to ten years and, generally, expect to pay under \$1000 for a new TV. Many of our parents still have colour TVs purchased 20 years ago and see no need to change. This might be compared to other countries, such as Japan, where consumers expect to replace electronic equipment, including TVs, at least every five years to ensure they keep up with technology. The introduction of new technologies will always have a much higher up-take when consumers are used to a rapid turn-over of the hardware (eg computers and mobile phones).

For example, most of the Australian public who routinely use computers accept (albeit grudgingly) that the computer they buy now will probably be out of date within three years, and will certainly need extensive upgrade or replacement within five years to keep up. The reason for this is the rapid pace of technology and computer innovations. Changes to software and computer application can be readily made in circumstances where there is rapid consumer turn-over of the more expensive hardware.

I think that we are on the cusp of undergoing a revolutionary change in TV use, comparable to the upsurge in personal computers of the late 1980s. TVs in the future will increasingly take over the role of computers in multimedia. In this respect, what we think of as a TV will essentially be a large screen, high resolution monitor in a fixed place. It will be driven by various input devices such as digital tuners, household computers, DVD players, web browsers etc.

The above changes are inevitable and will happen regardless of DTV policy. However, it seems to me that most people are yet to see the writing on the wall. Sooner or later everyone will be forced to junk their existing TVs and consider higher resolution display devices if they want to take advantage of the increasingly numerous plug-in peripheral devices and technology.

### **Changes to current DTV policy**

My view, as argued in this submission, is that the current policy framework is working well and is ultimately in the best interests of all Australians in maintaining a quality FTA system.

However, I think that tweaking of some elements of the policy would be advantageous (discussed below).

#### *Triplecast requirements*

Technology has rendered the requirement for separate SD and HD streams superfluous. However, I don't think that there is anything that can be done about this given that there is now a differentiation in the market place between SD and HD. People who have purchased SD equipment would clearly be disadvantaged if the SD stream were switched off as they would need to buy new gear. We will have to live with the legacy of separate streaming of SD/HD until HD equipment eventually dominates the market place and SD gear becomes hard to purchase or becomes a niche market (eg like B/W TVs in a world of colour TVs). It might be another ten years or more before switch off of the separate SD stream can be contemplated.

There is, of course, a continuing requirement to broadcast analogue. Although this will eventually cease, I imagine it won't be possible until the take-up of DTV is at least 80% and TVs with digital tuners are the norm. This may take up to another ten years if left to natural market forces (as is currently the case). Given that analogue takes up relatively little of the available spectrum, I think it is acceptable to allow the current scenario to continue which will see analogue die a natural death in due course (eg I don't think there is a need for Government intervention to force manufacturers to incorporate digital tuners into TVs etc).

Assuming that triplecast must remain for the foreseeable future (say to 2014 when another review may be warranted), the main concern is use of the limited spectrum. In the absence of multichannelling, this is not an issue. However, even if some multichannelling is allowed (discussed below), technology and smart broadcasting will allow the spectrum to be used more efficiently whilst maintaining quality.

In my view, current mandates should remain to prevent HD and SD streams effectively showing different broadcasting (eg multichannelling by stealth). Having said this, I think provision should be allowed for networks to seek and receive approval for one-off events or special circumstances (outside of prime viewing hours).

#### *HD Definition*

The current HD definition includes native 576p and 1080i transmissions for the commercial broadcasters. The ABC and SBS are allowed to transmit SD 'upconverted' to 576p or 1080i to meet their mandated quotas.

I would like to see the current definitions of what constitutes HD DTV reviewed and tightened to ensure that only native 576p and 1080i transmissions qualify and that converted programming meets certain defined minimum standards. In particular, I think that HD programming must meet certain minimum 'bit rate' quantum to qualify. This is to ensure that networks do not destroy the quality benefits of HD programming by excessive compression in the signal or cheap and nasty conversions.

#### *Rules on multichannelling*

I believe that the current rules on multichannelling could be relaxed slightly if sought by the three commercial networks. This would encourage DTV take-off by showcasing one-off television events.

I think that the commercial stations should have the freedom to multichannel special sports events (eg one off events, such as world cups, football grand finals, Olympics, Tour de France, Grand Prix etc), but with no market differentiation (eg the same channels/content must be broadcast nationally). Under this scenario, several channels could be used to 'multiview' different aspects or events of the competition. Other special events, such as network fundraisers, entertainment spectaculars and community interest events could also

be multichannelled in the truer sense of the word (eg as a one off multichannel event on a separate channel). There may also be scope for late night multichannelling of one-off broadcasting (Australian produced) events such as Big Brother. However, this must not be at the expense of current HD mandates which should be maintained and tightened (in terms of the technical requirements as above).

I believe that any such events would need to be approved by the ABA, or other authority, for one-off multichannelling only. ABA would need to establish a set of rules against which approval would be considered. These rules would need to ensure that multichannelling is generally outside prime viewing hours to avoid spectrum clashes with regular HD programming or inadvertent/deliberate dilution of HD content.

The above approach would allow limited multichannelling that is of defined benefit to the community without risking the quality and economics of programming into the future. It would encourage broadcasters to experiment and be innovative in thinking about new programming, whilst maintaining current quality. The need for one-off approval would ensure that the intent and requirements of the current policy framework is not lost or diluted.

### **Conclusion**

I believe that the current DTV policy framework is working well and that the uptake of DTV is acceptable at this early stage.

The current policy framework, in my interpretation, is aimed at maintaining equity and quality on the FTA services. This submission has argued that this approach is working and that any shift to allow multichannelling, to further increase uptake rates, is likely to dilute FTA quality. Indeed, a free market approach allowing multichannelling, as advocated by the ACCC, would compete directly with the Pay TV industry and could result in some existing operators going to the wall. It would also inevitably result in a move by some of the networks to introduce subscription channels, leaving FTA even poorer in terms of quality content and production/technical excellence.

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