



Submission to the  
Standing Committee on Communication, Information Technology and the Arts  
Digital Television Inquiry

Submitted by  
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Murdoch University, Perth – Western Australia  
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***Background***

The Interactive Television Research Institute is an independent non-profit interdisciplinary research centre based at Murdoch University in Perth, Western Australia. Our clients and research partners are global in character and include many of the world's leading advertising brands and media platforms. In the United States, for example, our advertising clients account for over one third of the US TV advertising spend. Many now view the Institute as providing one of the world's leading research centres in the study of viewing behaviour associated with the evolving digital television industry.

Despite our global focus, we have maintained an active research agenda on issues specific to the Australian market. Currently, for example, we are in the final stages of a three year project exploring how children respond to interactive television applications. This ARC funded project (in collaboration with the WA Department of Education, the ABC, Nickelodeon and the Nine Network) has seen almost 500 children participate in research conducted in our Portable Audience Research Centre (PARC) – a portable lab housed in a caravan which visited 21 schools. We have also engaged in a wide range of studies exploring consumer responses to a wide range of digital TV applications. In terms of issues associated with Australia's digital policy, we remain active participants and have engaged in a number of policy studies – indeed, the 'beauty pageant' datacasting option put forth by the Australian Democrats was based, in part, on our submission to the Datacasting Review.

The Institute's research facilities provide dedicated infrastructure for the study of interactive television viewing. Our labs on the Murdoch campus provide mock living rooms simulating the in-home experience of viewers. In this environment we test digital TV content – usually using research methods reflecting experimental design so as to compare linear and interactive approaches in a controlled environment where variables can be properly isolated. This includes a reference digital head end designed to modulate across satellite, cable and terrestrial platforms; and advanced audience measurement tools including eye gaze monitoring (mapping viewer eye movement over the TV screen) and perception analysers to map a viewer's moment-by-moment perceptions.

Given the many submissions the Committee will undoubtedly face on this issue, we will keep our comments short. We are happy to expand upon any of the issues noted below and are keen to provide the supporting research, where appropriate, if the Committee so wishes. Likewise, the Institute's Director, Professor Duane Varan, is happy to testify directly to the Inquiry if it pleases the Committee.

### ***Australia's Digital TV Roll Out***

There is no question that television markets globally have experienced a range of challenges associated with the roll out of terrestrial digital TV platforms. Given the wide range of parties which are integral to effectively facilitating this transition and the inherent technical complexities associated with the technologies, this is understandable. Indeed, we believe it represents the single biggest challenge facing the broadcast industry since its inception – significantly more complex, for example, than the transition to colour.

In some regards, Australia's policy to date has been successful on a number of levels. The necessary transmission infrastructure, at least for most of the capital cities, is largely in place. Australia's decision to adopt the DVB digital standard (as opposed, for example to the ATSC standard which could have been adopted given the high definition character of Australia's roll out) has proven itself, by global measures, to have been the best available option. There are now a wide range of digital TV receivers in the market, by some estimates in excess of 10% of households – and these are available at relatively low cost. This is further supported by regular promotional campaigns supported by broadcasters informing viewers of the potential benefits associated with digital television. These achievements should not be discounted.

Despite these gains, however, Australia's digital policy has not lived up to its potential. Indeed, we believe that on many levels (these will be elaborated on), the policy is failing to live up to its obligations. Our view is that the policy is falling short in significant measure and will not – on its current trajectory – advance Parliament's intention to shut down analog TV in the foreseeable future. It is also our view that the failure is not a primary function of market factors, per se, but is a direct result of poor implementation of policy. Our policy concerns and their potential impact on the market will be addressed in specific terms in this submission.

### ***A Policy Protecting the Status Quo***

As noted earlier, crafting an effective policy facilitating digital migration is no easy feat. Not only are there a wide range of technical issues to navigate through, but there are a number of players in the market whose participation is critical to the effective implementation of television's new value chain. Beyond technical requirements, there are also a wide range of commercial considerations essential to making any approach sustainable. The guiding principles for policy are also

often ambiguous as the prevailing principles of the past (e.g., spectrum scarcity) don't quite fit the new landscape. And it is always difficult to anticipate consumer demand in advance – requiring planning for a future that hasn't yet arrived.

It's clear that any transition strategy would have its own challenges. What is problematic about the approach in Australia is not that digital migration is complex... it's that the process has so clearly shifted from its original stated objectives and has failed to adapt to market considerations. Rather than usher in a new age – the policy is attempting to replicate the analog paradigm in a digital universe. The situation is less a reflection of the original legislative intent... rather, it has resulted from the manner in which the policy has been implemented.

At every juncture, the policy has navigated a path forward by making ad hoc concessions designed to appease particular segments of the television industry. What has been cobbled together is a 'lose-lose' montage - penalising one market actor to compensate for the fact that another has been disadvantaged in some way. It is a path forward whose premise is based on mutual disadvantage. Rather than maximise the capacity to respond to audience demand (critical in navigating into an uncertain future), the policy inhibits market innovation and chills investment.

This situation cultivates an environment where the only clear 'win' is associated with preservation of the status-quo. In other words, the policy framework effectively is designed (whether or not by intent) to migrate the existing paradigm of television – complete with its existing value chain and players – across to digital with minimal disruption. This approach is problematic on three levels. First, it fails to capitalise on the many advantages which digital affords. Second, as a result, there is less incentive for consumers to adopt – significantly delaying analog shut off (thereby failing to maximise spectrum efficiency). Third, it fails to stimulate market adaptation in the television sector – which will be critical to preserving Australia's capacity to maintain strong cultural industries going into the future (this theme will be elaborated on later in the submission).

It is important, therefore, to question what the intent of the digital migration legislation is. If it is simply to move the existing broadcasters from analog to digital and preserve television's existing paradigm, then the best path forward would be to adopt a plan similar to the FCC in the United States and require digital tuners in all TV sets by a particular target date. Over the course of 15 years, a migration would naturally be facilitated. The current policy framework serves this direction well... in this environment the transition process is relatively straightforward and simple. The relative cost of this to consumers would also be minimal as digital television production globally has largely been commoditised – resulting in significant downward pressure on price which, in effect, absorbs perceived negative consumer sentiment (as costs appear to remain stable, in relative terms).

If, however, Australia is to benefit from the full range of benefits enabled by digital television and if the Australian market is to adapt to global change in this arena, a more sophisticated policy is required. At this level, Australia's policy falls short. Specifically, we raise concerns with regards to the following:

#### Datacasting

Perhaps the single area where the policy has most visibly failed has been in the inability to effectively introduce datacasting in Australia's digital television landscape. The failure of the datacasting auctions was a clear indictment, reflecting the market's rejection of the specific model of datacasting put forth by the Government.

Australia's datacasting regime is a textbook example of poor digital television policy. In fact, we would assert that, taken in isolation (independent of the rest of Australia's digital policy), it is the single worst digital policy implemented in any national digital transition strategy globally. The idea that a legal standard could possibly be based on subjective differentiation between 'informative' and 'entertaining' content is nothing short of ridiculous.

What is even more remarkable, however, is that faced with clear evidence that the standard was non-viable (following the collapse of the auction), the Government chose to continue to adhere to the standard rather than attempt to adapt it to respond to the market. This, we believe, constitutes a fundamental flaw in the digital framework as a whole. It is also a reflection of the process through which the policy is being implemented; highlighting its inability to adapt to market demand.

The original legislation was crafted an environment where datacasting was introduced as a vital stimulant to accelerate digital adoption by consumers. The datacasting fiasco has, in effect, left a void in the place of what was supposed to be one of the critical drivers for digital adoption. This, we believe, is the single biggest failure of the policy to date.

#### Competition Implications

A key feature of the digital legislation was a degree of 'competitive tension' designed to balance the interests of incumbent and new television players. This recognised, we believe, that incumbents would best be motivated to facilitate the transition where there was competition in the character of the digital service itself. It also responded to on-going pressure to diversify media control in Australia.

The datacasting vacuum has resulted in an environment where there is no new competition coming from within the terrestrial digital platform. In this context, key decisions reflecting the character of the platform and its key

features are left to non-digital incumbents alone – who have minimal incentive to facilitate change. This suggests that, other things being equal, the path moving forward will continue to reflect minimal change – retarding the introduction of the full range of possibilities enabled by digital and thereby slowing digital take-up.

At a level of principle, there are also serious questions here about the degree to which the policy is inhibiting diversity of voice in Australia's television landscape. The existing situation, dominated by three commercial networks, has been justified in Australia on the basis of spectrum scarcity. A good part of that scarcity has been further replicated by the decision to adopt high definition television. However, the legislation not only allowed for competition – it required it! More the spectrum required to deliver against this has been specifically identified and embargoed. Why, therefore, is competition being stifled. The failure to introduce such competition is, therefore, a further reflection of the failure of the policy to diversify Australia's television sector.

We do not suggest that incumbent broadcasters should be ignored or otherwise be marginalised. Clearly, there is significant benefit in providing strong incentives designed to help stimulate digital conversion on the part of such commercial broadcasters. But these interests must be counter-balanced by a need to introduce new competition in the digital television arena so as to help stimulate change. The global experience to date has demonstrated that those markets that do introduce such competition see significantly faster consumer adoption than those which do not.

#### Interactive Services

While the digitisation of television enables better sound and picture, it also enables a wide range of interactive services. This includes enhancements to television programming as well as stand-alone applications. Our research has consistently demonstrated that such interactivity can significantly enhance the viewing experience. Such services also introduce new business models.

In research exploring the impact of interactive advertising, for example, we have demonstrated that interactive ads deliver impact equal to seeing a linear ad repeated three times (see attachment 'A'). For media planners, this represents a significant opportunity as attracting repeat exposure gets more and more challenging in a fragmented audience viewing environment. This helps explain why, for example, advertisers in the UK have so enthusiastically adopted interactive ads despite the additional cost premium associated with such advertising.

Potential new revenue streams are particularly important for broadcasters because the economics associated with television are shifting from

‘economies of scale’ to ‘economies of scope’. In other words, increasingly in the future, a broadcaster’s profits will be made based on their capacity to leverage their content assets across platforms rather than on the basis of the size of the audience on any single platform at any single point in time. In this context, a key challenge for broadcasters is to diversify revenue streams – breaking the almost exclusive dependency they currently maintain on a single model of advertising (the 30 second commercial).

Interactivity, therefore, is critical to embracing television’s new business models. But by its very nature, such interactivity is disruptive to the existing business practice. In this context, other things being equal, incumbent broadcasters have more invested in the status quo than in change.

The advent of the Personal Video Recorder ultimately forces this transition in the market as the existing 30 second commercial model rapidly erodes outside of those programming opportunities still able to reproduce critical mass. Advertisers, therefore, are keen to explore new advertising models based on viewer ‘engagement’ rather than viewer ‘exposure’ alone. In time, we believe, a fundamental shift occurs – and this will increasingly require a capacity to facilitate interactive content.

While it is not the role of Government to ‘pick winners’, the issues associated with the lack of interactivity in the current broadcast landscape reflect policy decisions – rather than market forces. By inhibiting datacasting, for example, a critical stimulant for interactive services has been lacking. Ultimately, the failure of Australia’s digital policy to effectively cultivate interactive services is another example of selling consumers short on the digital proposition.

#### *Backchannel and Integrated Platforms*

A wide range of interactive services reflecting digital’s promise require a backchannel facilitating two way interaction with the viewing audience. This has implications for both receiver standards (to be discussed separately) and a significant investment in the back-end technology necessary to facilitate such transactions.

The situation in Australia is such that a backchannel of any meaningful kind is difficult to evolve given the fragmented nature of the platform. As each broadcaster is in complete control of their own spectrum, it is not possible to create a single unified system optimising the experience for viewers.

For example, if a viewer watched an interactive ad on the Seven network and chose to interact – and then switched to channel Nine and chose to interact again (in both cases we’ll assume this required a two way transaction as opposed to a frontchannel interaction) – this would require two separate calls. For advertisers, this could also mean having to deliver to two different

requirements and potentially paying additional premiums for access across two platforms. In practical terms, it is difficult seeing such a system as becoming commercially viable.

Although there have been parties interested in exploring commercial models based on distributing free or subsidised set top box receivers in return for facilitation rights associated with the platform, the inability to aggregate across interactive services on the platform significantly chills investment in this regard.

In the UK, by way of contrast, regulators have separated the platform and individual channels across that platform. Although Freeview hasn't yet attempted to exploit a backchannel (though it has the capacity to do this), this disaggregation of channel and platform enables a wide range of services which make the platform, as a whole, a significantly more attractive proposition for viewers. For example, British Electronic Program Guides (EPG) sit across the platform, providing a more integrated and fulfilling experience for the viewer than any Australian approach, dependent on having separate EPGs for each channel, could deliver.

Again, the issue is not to mandate any particular market response... but to facilitate the provision of an integrated platform capable of responding to a wide range of commercial opportunities associated with the backchannel. Australia's existing policy framework largely inhibits the cultivation of such a platform. We believe that this issue can be resolved by awarding one of the datacasting licenses in a manner designed to provide it with such platform facilitation rights. We explore this option further later in this submission.

### Receiver Standards

Although Australia has over-regulated many aspects of the industry, we believe it has under-regulated questions associated with technical standards. On one level, this creates a chaotic environment with a large range of devices sold in the market with no assurance that they meet minimum standards. The potential problems associated with the absence of such mandated standards increase dramatically as the functions and features associated with digital television in Australia begin to expand. The problem is best understood at two levels:

#### Zapping Boxes

For the most part, receivers currently distributed in the Australian market are limited to digital channel tuning alone. Most have no capacity to house middleware significantly compromising their ability to provide even basic interactive services (e.g. interactive EPGs, backchannel capacity, etc.). On the whole, the problems associated with such receivers are potentially minimized by the limited features they offer. At the same time, however, even at this minimal level, it is clear that viewers are experiencing technical

problems with their service. What is not known is the relative scale of such problems, or whether these relate to issues of transmission or reception.

This problem is, in part, alleviated through mandating minimal technical standards and developing a system of technical compliance as the cause of viewer reception problems can better be isolated.

#### Enhanced Boxes

The lack of mandatory standards, however, becomes particularly problematic when addressing potential issues associated with more advanced set top box features. As interactive services (whether these are front or back-channel enabled) begin to feature as part of the digital proposition, a wide range of questions associated with minimal standards become critical in the evolution of the network. A key problem becomes apparent to the extent that the system – as a whole – is ultimately held hostage to the lowest common denominator.

In other words, issues such as receiver processor speed, RAM and flash memory size become critical factors in determining performance characteristics associated with the service itself. Content producers and developers are forced to build applications designed to work well with the weakest link in the market – thereby discouraging innovation. Collectively this compromises the capacity to provide a compelling consumer proposition as buyers become increasingly uncertain and wary as to the performance they can expect to receive. This does not contribute to accelerating consumer adoption.

This highlights a need to enforce mandatory standards to ensure that all receivers claiming to provide enhanced services (as opposed to zapping boxes alone) meet certain minimum requirements. To some extent, this problem is part alleviated through the adoption of the Multimedia Home Platform (MHP) – however, compliance with the MHP standard needs to be enforced and certification adhering to an agreed minimum configuration verified.

#### Role of National Broadcasters

It is clear that the provision of either enhanced or additional content is a key driver for digital uptake. The experience in the UK demonstrates that when digital penetration is low, channels have little incentive to provide such content. But as digital adoption approaches a critical threshold (let's assume this begins to become significant at 33% penetration), channels begin having an incentive to make such content available.

So a key question is how new content features as part of the digital proposition prior to there being significant audience scale. This is a chicken



or egg question. New content drives uptake. But critical scale is required to provide the necessary incentive to get content in the first place.

In the UK, the national broadcaster (the BBC) has fulfilled this role. The provision of the BBC's digital content (both its additional channels and its interactive enhancements) have clearly stimulated digital adoption – indeed, in terrestrial space it is probably the main market driver. This has also played a significant role in 'training' viewers for the new interactive landscape.

In Australia, however, national broadcasters have largely been inhibited from driving such innovation – not only through limited budgeting but, perhaps more importantly, through legislation barring them from providing specific content genres across their new services. Although a second ABC channel is back on air (and there is good evidence that this is stimulating digital adoption), the policy has largely failed to facilitate an active role for national broadcasters in pioneering innovation in the digital market. This is not due to a lack of desire, on the part of the national broadcasters, to fulfil such a role. Rather, it is a result of the policy framework itself.

#### *Role of Pay TV Unclear*

Another gap in the existing framework is associated with the lack of clarity around the role of pay TV in facilitating digital migration. In some countries, access to digital via pay TV is central to analog switch off targets. In others, such calculation is a little more complicated. In the United States, for example, the legislation requires penetration of 85% on digital terrestrial channels. However, pay channels can count towards this quota where they carry the digital (as opposed to analog) frequency broadcast locally. What further complicates matters is that statistics associated with digital penetration often simply aggregate both digital terrestrial and other digital platforms.

The inclusion of pay TV in such 'switch-off quote' calculations naturally accelerates potential analog switch off. The argument here assumes that the primary test is viewer access to the channel – however that is being facilitated. Hence, if the inclusion of pay results in critical mass at some point in time (the Australian legislation does not specify what this level of penetration would be), then analog could be more quickly shut down.

Of course, in the Australian context, this is further complicated by the lack of 'must carry' provisions. The issues associated with pay TV in television's new landscape are inherently complex. We believe that rather than address these issues in this submission, we will simply highlight the need for a separate review following any potential revision of the existing legislation. In the context of our current submission, we simply highlight that Australia's

analog shut off strategy has failed to articulate the role of pay TV in any calculations of the necessary level of penetration.

### ***Policy Rationale***

The concerns we voice highlight the degree to which – at a level of principle – the overall objectives associated with the policy remain unclear. Where these principles are clearly articulated, the implementation of policy tends to better steer the transition process.

In other markets the policy rationales are clearer. In the US, for example, digital migration is driven primarily by spectrum scarcity. In the UK, competition policy has largely driven the digital conversion agenda. In South Korea, digital policy has responded to market opportunities associated with the export of television production and reception equipment building a domestic base through which to strengthen the manufacturing industry. What drives policy in Australia?

Here the issues of spectrum scarcity, with some notable exceptions, are for the most part not a driving force. For most of Australia, there is nowhere near the type of scarcity that is driving change in the American or European markets. Australia also has a limited electronics equipment manufacturing industry – so an ‘export’ strategy in this arena seems an unlikely rationale. Although there are significant competition issues in Australia, the chaotic approach to digital here hardly reflects any type of consistent or coherent competition framework. In this sense, digital conversion policy lacks a compelling driving principle.

We would suggest that the main driver for change in Australia should be the need to harmonize the television industry to fundamental change taking place globally. This, we believe, is important in helping provide a buffer for this transition and in protecting Australia’s cultural exports (which in turn has a profound effect on our own domestic television production capacity).

In terms of buffering global change... there is no question that the landscape associated with the structure of the television market is in a period of unparalleled change. We can provide a more detailed discussion of the nature of this change, if the Committee wishes. In brief, each of the fundamental pillars associated with broadcasting’s golden triangle (delivering mutual value to channels, advertisers and viewers) is experiencing significant disruption. The relationship between viewer and advertising is disrupted by technologies empowering viewers to avoid ads; advertising and channel relationships are being challenged by increasing demand for accountability (reflecting a shift from above to below the line media); and the relationship between channel and viewer is being transformed by growing audience fragmentation (this trend has not yet impacted Australia due to low pay-TV take up).

A range of technologies are further accelerating the process of market disruption because of their capacity to operate outside the parameters of this golden triangle.

IPTV (television delivered over broadband) transcends national borders – accelerating fragmentation (particularly among key viewing cohorts). PVRs disrupt ad models – particularly where there is measurement of its time-shifting character (as will be the case in the United States in early 2006). There will be indirect effects associated with the transition as well. For example, the pace of change associated with the PVR market will probably be much more rapid in the United States than here in Australia. Even though the shift plays out on distant shores, it will impact the media planning strategies of the global brands – which account for almost half of the Australian TV ad spend. Hence, even before the effects have fully played out in Australia, they will begin impacting the structure of our market.

Although it is reasonable to argue that broadcasters should be left to their own devices to adapt to this shifting landscape, the implications associated with this transition do not limit the potential fallout to broadcasters alone. Australia's cultural and advertising industries are also put at risk potentially resulting in significant erosion of Australia's capacity to reinforce its cultural identity. Hence, decisions by one segment of the market (broadcasters) are currently shaping the capacity of other vital segments (e.g. content producers) to respond to such fundamental market change.

It is also important to note the degree to which Australia's success in the export of cultural products are put at risk. Australia's television exports transcend its relatively small market scale. Such exports have been instrumental in lifting the quality of Australian television content as a whole – because the few sparks of success bring with them windfalls that underwrite significant losses enabling significant investment in television production.

However, as Australia insulates itself from changes playing out in other regions – particularly in the US and European markets – its capacity to effectively export to these markets diminishes over time. This in turn erodes the quality of Australia's domestic television content sector as well. The negative fallout of all this is further impacted by the increasing availability of international content (distributed through IPTV), further diminishing the capacity of Australia's cultural industries.

Currently, Australia's digital conversion strategy has minimal (if any) consideration for such factors. There is, for example, no provision in the content quota scheme rewarding the significant risk associated with interactive television content. We believe that articulating the need to develop a globally competitive digital television content sector provides a meaningful principle (among others) to help shape Australia's digital conversion strategy.

Conversely, there is significant export opportunity associated with the emerging television landscape. The nature of market disruption inherently provides opportunities to those able to first respond to the new 'gaps' in the value chain.

We believe that there is currently a unique ‘window of opportunity’ to respond to this shifting landscape – and we would maintain that Australian content producers and application developers are well-positioned to capitalize on this. However, foreign markets will not respond well to proposals for projects which have no support at home. The failure of the domestic climate to stimulate change in Australia’s new television value chain directly impedes its capacity to exploit the opportunities associated with such global market disruption.

### ***Consumer Incentive***

It is our view that the interests of consumers have not been a driving factor in facilitating the conversion to digital. While better sound and picture provide some level of incentive, there are clear consumer drivers which are specifically inhibited by Australia’s digital conversion policy.

We’ve attached a copy of a survey we conducted on behalf of the Australian Broadcasting Authority (see attachment ‘B’). This survey attempted to get a snapshot of the views of those directly engaged in the digital television sector. At the time, we managed to solicit the views of approximately one third of those in the industry who had any direct experience with the nascent digital television sector. In many ways, this reflects a candid view of these opinions. Given the exposure the study received following its distribution, it is unlikely that those surveyed would again be so candid in sharing their views.

What stands out in the ABA survey is the degree to which the opportunities which those in the industry believe consumers will respond best to (such as multicasting) are the very drivers inhibited by policy. The converse is also apparent... the policy’s key drivers – such as high definition – are seen as providing the least incentive. This highlights the degree to which even those in the industry itself see a discrepancy between the services they provide and those they believe consumers are most interested in.

Rather than engage in a debate about what the best driver might be, the best approach (given that spectrum has already been allocated for high definition) is to allow market forces to decide. This is not possible, however, if key market opportunities are denied. The best approach for consumers, it would appear, would be one maximising flexibility – so that broadcasters and datacasters were free to compete using a variety of drivers to test which ones consumers respond to best.

### ***Future Options***

On the basis of this discussion, the Institute would make the following recommendations to help accelerate digital conversion:

1. *Digital Television Standards (Digital & Digital Plus)*

As noted above, there is a need for a government process designed to mandate specific parameters of the digital conversion process. This does

not have to be extensive and span all aspects of the industry – but it must ensure that a minimum technical standard (particularly at the level of set top box) is met. We believe this can be done on two levels: A basic feature set (zapping box alone) and enhanced features (e.g. interactive services, etc.). To help reinforce consumer confidence, we believe it is important to differentiate between these two levels of standards. Accordingly, we recommend use of the term ‘Digital’ to refer to the basic standard and ‘Digital Plus’ to refer to the enhanced standards.

## 2. Standards Compliance

We believe it is important to develop mechanisms in the market to ensure that receivers in the market comply with digital television standards. We believe this requires two steps: First, an industry audit should be conducted to better understand the scope of existing problems. This should survey household receivers (in their natural viewing environment – i.e. connected to their existing aerials, etc.) to develop a snapshot of the technical reliability of the existing digital service. This should also attempt to identify the nature of any problems that are detected (are these, for example, due to issues of the receiver, aerial, environment or transmission).

Second, we recommend that a compliance lab be funded with a view to certifying receivers before they are distributed in the Australian market. We recommend this as a mandatory scheme. Consistent with our first recommendation, we recommend that this compliance scheme operate on two levels: Certifying receivers as either ‘Digital’ or ‘Digital Plus’.

## 3. Digital Television Commission

Following the demise of ITV Digital in the UK, there was fear that their digital policy might derail. A critical element of the Government’s response was the articulation of the Digital TV Action Plan. This included a high profile ‘Stakeholders Group’ linking key policymakers and industry representatives.

We believe that Australia is now at a similar juncture. The current review will effectively determine the future of the digital landscape for decades to come. We believe that Australia would benefit from the creation of an entity given explicit mandate over digital conversion in a forum facilitating close interaction with industry. Naturally, such a group should reflect the diversity of market agents central to any effective transition including broadcasters, datacasters, equipment manufacturers, content producers, advertisers, policymakers and academics.

## 4. Datacasting Channels

We recommend the introduction of two datacasting channels, whose scope would be mandated as follows:

*a. Platform channel*

As noted earlier, in the UK the Government withstood significant incumbent pressure and separated the platform from its various channels. This has resulted in an integrated channel (Freeview) capable of presenting viewers with a superior digital proposition. By way of contrast, the American approach (similar to Australia's) of awarding licenses individually provides no coherent integrated platform framework. The significant difference between digital take up in the two countries highlights the advantages associated with the British model.

We recommend a hybrid approach allowing individual channels full control over their spectrum, but also enabling the creation of a datacasting channel to provide integrated services across the platform. In effect, this datacaster would become the primary gateway to the platform itself, facilitating transactions, providing an integrated EPG, backchannel and the like. Consistent with the existing legislation, incumbent broadcasters should be prohibited from holding this license so as to preserve competitive third-party neutrality. This would provide clear market incentive for an emerging market actor to invest in significant backchannel infrastructure. It might also provide for new distribution models based on maximising distribution of appropriately enabled set top boxes.

The front end of this channel should be an EPG designed to facilitate an integrated viewing experience for viewers. Access to data associated with this guide may be an issue requiring further legal specification. Similarly, provisions associated with fair royalties to platform channels (the cost of 'clipping the ticket') may need to be specified so as to enable interactive transactions through use of the platform.

We are keen to assist the Committee in further exploring this option, if it is of interest to the Committee. We believe it will attract significant investment, provide a more cohesive digital terrestrial platform and accelerate adoption by viewers.

*b. Digital channel*

We would recommend that the second channel be allocated for the provision of a 4<sup>th</sup> commercial TV network – limited to digital spectrum alone. We would recommend no artificial constraints be imposed on the provision of this channel (i.e. datacasting inhibitions), but rather suggest that by limiting its availability to digital alone there is sufficient market incentive for the channel to help stimulate digital take up. This service could commence in 2007, thereby honouring the moratorium on new TV channels enshrined in the existing legislation.

### 5. *Flexible Spectrum Usage*

As noted earlier, we believe that digital take up is maximised by ‘win-win’ rather than ‘lose-lose’ inhibitions. Rather than build a strategy based on creating mutual disadvantage for all, we believe an effective policy must stimulate the market with clear incentives for all.

Accordingly, we recommending removing most of the current restrictions so as to allow the market to itself decide which factors best contribute to digital take up. We would encourage continuation with high definition – but allow broadcasters the flexibility to use their spectrum for multiple channels, enhancement or other television applications. We would encourage the removal of datacasting restrictions and have provided you with our views as to how the spectrum might best be used. We would also recommend re-visiting a range of prohibitions imposed on the pay-TV sector as the removal of many of the digital restrictions directly impacts them without providing them with new opportunities moving forward. This may require a separate inquiry.

The principle we advocate here is one of maximum market flexibility so as to allow the market to better identify potential opportunities. However, we caution that without the introduction of new players, who are not invested in the current television paradigm in Australia, the necessary competitive tension may be lacking to fully exploit such opportunity.

### ***Conclusion***

As a non-profit independent research centre based in Australia, the Interactive Television Research Institute is keen to assist, in whatever way it can, the needs of the Committee. We believe that the current review plays an important role in shaping the very structure of Australia’s television landscape for decades to come. We are happy to provide the Committee with any further research or background information available to us (subject to our own Confidentiality constraints). Likewise, as noted earlier, our Director would be please to testify at the Inquiry if it please the Committee.

We wish the Committee well in its deliberations.