



# **NINE NETWORK RESPONSE TO THE INQUIRY INTO THE UPTAKE OF DIGITAL TELEVISION**

## **Summary**

- Nine supports the submissions of Free TV and DBA which address a number of issues including the roll out of free to air digital transmission and digital equipment in Australia.
- High definition production, transmission and equipment sales are increasing in major markets around the world. This experience is being reflected in Australia.
- It would be detrimental to the quality of free to air television if the digital television framework was changed to permit free to air multi-channelling.
- Free to air multi-channelling would not deliver high quality free programming and would therefore have limited impact on digital take-up.
- Free to air commercial broadcasters should not be permitted to use their spectrum to provide subscription multi-channelling services.
- The Government should introduce a phased in mandating of digital tuners and should consider a high definition mandate for television sets capable of receiving a high definition signal.

## **Introduction**

Nine Network (Nine) welcomes the opportunity to make a submission to the Inquiry into the uptake of digital television in Australia by the House of Representatives Standing Committee on Communications, Information Technology and the Arts.

Nine is a member of Free TV Australia (Free TV) which represents the 48 commercial free to air television licensees in Australia and is a member of Digital Broadcasting Australia (DBA) which represents the free to air television industry including free to air television broadcasters, consumer electronics manufacturers and suppliers, audio/visual retailers and antenna installers.

Free TV and DBA have made submissions to this inquiry which address:

- the nature of the horizontal free to air television market;
- the roll-out process for free to air digital transmissions;
- the availability of consumer equipment in the Australian market;
- the uptake by viewers of equipment;
- digital content available;

- broadcasters support for digital roll out including marketing and interference management;
- analogue switch off;
- the role of datacasting in digital take-up; and
- cross industry co-operation on technical issues including over-the-air software downloads.

Nine supports the submissions of Free TV and DBA and does not intend to repeat the issues discussed in those submissions.

Nine would like to address a number of issues relating to future options for take-up which have not been discussed in the Free TV and DBA submissions namely:

- the progress of high definition television internationally and its role in digital take-up;
- the role of free to air multi-channelling in digital take-up;
- the role of subscription multi-channelling in digital take-up;
- mandating digital tuners in new television sets;

### Background

In 1998 and 2000 the Federal Parliament passed legislation to establish a framework for the introduction of free to air digital in Australia. The rationale behind the framework was:

- to give viewers across the whole of Australia access to the benefits of digital technology in a reasonable time frame;
- to let viewers make the conversion to digital at a time of their own choosing while in the meantime being able to continue to enjoy their analogue service;
- to give viewers the option of accessing the superior quality of high definition programming (implemented through the high definition quota);
- that the start of digital transmission should cause minimum disruption to the continuing analogue service;
- that digital television should be consistent with the overall policy objectives of free to air television of delivering high quality free television to all Australians.

Nine is of the view that the current policy framework for free to air digital reflects these objectives.

The superior quality of digital television is acting as a driver of digital take-up and with high definition programs becoming increasingly available and consumer equipment prices continuing to fall this will continue to encourage take-up (discussed below).

It is our submission that it would be detrimental to the quality of free to air television in Australia if the digital television framework was altered to permit free to air multi-channelling (discussed below).

As outlined in the submissions of Free TV and DBA, take-up of digital television is progressing in a horizontal market where viewers decide when and how they will make the transition to digital. Increasingly consumers have a wide range of equipment available to them at a wide range of prices. However, it is our view that manufacturers should be encouraged to make available to consumers more digital (and high definition) equipment rather than analogue equipment for consumers who wish to purchase it. (discussed below).

## **High Definition Television**

High Definition television refers to pictures that contain significantly more detail than other pictures as they contain a larger number of pixels. For high definition to be experienced by a viewer each stage in the television value chain must be high definition. The program must be made and post produced in high definition, the program must be transmitted in high definition (with bandwidth consumption up to six times higher than standard definition pictures) and the viewer needs to be able to receive the high definition signal on a high definition display.

Despite these additional requirements, the superior quality of high definition is increasingly driving high definition production, transmission and sales of equipment around the world and Australian experience is reflecting this trend.

### Australia

The legislative framework for digital television requires broadcasters to transmit native high definition programming to ensure the highest quality digital broadcasting is available for viewers who chose to purchase high definition capable equipment. Consumers who purchase a high definition integrated set or a high definition set top box are able to watch both the standard definition and high definition signals transmitted by broadcasters. Consumers who purchase a standard definition integrated television or set top box are only able to watch the standard definition broadcast.

With sixteen high definition set top boxes available in the Australian market it is estimated that 28% of digital equipment sold in Australia is high definition capable.

Prices have fallen considerably since the start of digital transmission in 2001 with prices originally starting at \$699 but now starting at \$299 and ranging up to \$1,500 for a box with a hard drive.

There are five models of high definition integrated digital television sets in the market and these range in price from \$7,000 to \$20,000.

All free to air broadcasters are meeting or exceeding their high definition quota with the number of hours continuing to increase as high definition production increases and more and more programming from overseas is made in high definition.

In 2004, Nine transmitted a wide range of programming in originated high definition with a number of movies, entire programs and portions of programs which also contained non high definition external footage (eg A Current Affair and Sunday)

<b>High Definition Programs – 2004</b>	
A Current Affair	Merrick & Russo Unplanned
Australia's Funniest Home Videos	Mornings with Kerri-Anne
Baby Bob	One on One
Burgo's Catch Phrase	Saturday Fresh
Business Sunday	Smallville
CSI	Sunday
CSI Miami	The Agency
Diagnosis Murder	The Bernie Mac Show
ER	The Footy Show (NRL)
Family Affair	The King of Queens
Fresh	The Sunday Footy Show (NRL)
Gilmore Girls	The West Wing
Girlfriends	The Young & the Restless
Joan of Arcadia	Third Watch
Judging Amy	Today
McLeod's Daughters	Two and a Half Men
	Without a Trace

### US, UK and Europe

Australia's experience is a reflection of the situation in other digital markets around the world.

A recent Jupiter Research European survey found that although it had been assumed that services such as video on demand and digital video recorders would be the most important factors driving take up of digital in fact only 10% of the surveyed group cited these reasons indicating that picture quality is the most important factor. 24% ranked high definition television as the most important fact in deciding whether to switch to digital television.<sup>1</sup>

High definition production and consumer take-up has increased considerably in the United States in recent years with all networks transmitting a large number of programs in high definition. 60% of the prime time line up of NBC and ABC are now high definition programs and it is estimated that by 2006 30% of all programming on the networks will be high definition.

High definition programming is available on all platforms (terrestrial, cable, satellite) with an average of 14-15 high definition channels available per major market. High definition features across all genres but there is particular emphasis on sport, movies and dramas.

High definition viewing across the market is increasing. For example Comcast the largest US cable operator has had significant success in promoting high definition to its subscribers with 12% of its digital base now with high definition set top boxes.

In line with the rest of the world falls in prices of equipment has seen an increase in take-up of high end equipment and it is now estimated that 6% of US households have a high definition screen. Many of these households do not have the equipment

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<sup>1</sup> BBC News 4 May 2005

to receive the high definition signals but with increased high definition programming it is inevitable that with time this will follow.

High definition broadcasting is only just starting now in UK and Europe largely due to a shortage of spectrum. However in contrast, high definition production levels are increasing markedly.

The BBC currently produces a number of programs in high definition (largely for overseas markets) and expects to be fully high definition by 2010, many independent production houses are now converting to high definition and increasingly programming is being produced in high definition across the markets. For example, high definition production has been announced for the next Soccer and Rugby World Cups, Euro 2008 and the next Olympics in Beijing.

High definition transmission is starting with France and Germany launching terrestrial and satellite high definition channels in 2005 and BSkyB launching high definition satellite channels in 2006.

## **Free to air multi-channelling**

### Introduction

The ACCC<sup>2</sup> and the Seven Network<sup>3</sup> have put the view that the current prohibition on using digital spectrum for providing free to air multi-channels should be removed as a way of increasing the up-take of digital television.

Nine opposes the introduction of free to air multi-channelling in Australia on the basis that:

- it would not deliver high quality free programming and would therefore have limited impact on digital take-up; and
- it would lead to a decrease in the quality of free to air television as a whole, currently enjoyed by more than 78% of Australians who rely solely on free-to-air for their television viewing.

Nine's arguments have been discussed in detail:

- in a 2004 submission to the DCITA on Provision of Services Other than Simulcasting by Free to Air Broadcasters on Digital Spectrum;
- in a joint submission together with Network Ten to DCITA in relation to the ACCC Report to Senator Alston, Minister for Communications information Technology and the Arts on Emerging Market Structures in the Communications Sector.

### Background

Due to its more efficient use of spectrum, broadcasting in a digital format enables broadcasters to transmit higher quality television services than is possible using

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<sup>2</sup> Report to Senator Alston, Minister for Communications, Information Technology and the Arts on Emerging Market Structures in the Communications Sector

<sup>3</sup> Submission to DCITA on "Provision of Services Other than Simulcasting by Free to Air Broadcasters on Digital Spectrum"

analogue technology and/or deliver a number of channels of programs in contrast to analogue transmission where only one channel can be broadcast.

The Parliament has prohibited free to air multi-channelling having regard to competition issues concerning subscription multi-channelling services and to limit the number of free to air services that are available. The number of free television services has been limited to ensure the delivery of high levels of quality television (including adult and children's drama and documentaries) free of charge to viewers.

If the resources of the free to air television industry are spread more thinly across more channels the quality of the programming will fall. It is inevitable that in this situation resources would initially at least be drawn from areas of discretionary and high cost/hour programming namely general Australian programming and Australian drama.

The number of free-to-air services in Australia is restricted by limiting the number of commercial licences to three in each licence area and by limiting each licensee to one primary service.

It is worth noting in this context that with five free-to-air services, Australia is well served with the same number of services as the UK. With 24 million households, the UK has 4.8 million households per network in contrast to 1.5 million households per network in Australia. Clearly, in an advertising supported business model, Australian free-to-air broadcasters are in a more challenging economic environment than their British counterparts to finance expensive local content.

#### Funding additional channels

To produce and or purchase additional programs for additional free to air channels, broadcasters would need additional resources. In a free to air model additional resources will need to be funded from advertising revenue but there are no indications that in the mature free to air television market that advertising revenue would increase with the introduction of additional programming.

Experience in the UK and USA has shown that "irrespective of whether additional FTA advertising avenues become available, the total amount of advertisers spend on FTA advertising stays relatively constant."<sup>4</sup>

Therefore to maintain current market position, broadcasters would need to create the additional channels for the same cost of the existing one channel. This would lead to an overall reduction in quality of all programming across all channels.

It is interesting to note that Seven Network the only free to air broadcaster which has supported the introduction of free to air multi-channelling has noted that "A successful multichannel DTT platform will require multiple revenue streams, both advertising and subscription based..... there is room for advertiser supported free multichannels on the DTT platform as part of a free/pay service offering."<sup>5</sup>

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<sup>4</sup> ACCC Report to Senator Alston on Emerging Market Structures in the Communication Sector p 65

<sup>5</sup> P18 Seven Network Submission August 2004 to DCITA Multichannelling Review

### Increased fragmentation

By introducing more channels the existing free to air audience would be fragmented across these additional channels. This fragmentation would escalate and exacerbate the fragmentation that is already occurring in the market.

The ability of free to air television to reach a mass market remains the feature that distinguishes free to air television from other avenues for advertising. This strength has ensured that revenue levels have remained healthy. But increasingly the ability to meet the mass audience is being threatened with erosion of viewing from increased competition for viewers' entertainment time from DVDs, the internet, pay television, games etc. This is particularly prevalent amongst younger people where levels of television viewing are falling and being replaced by alternative forms of entertainment.

Fragmentation of the market and falls in revenue have not been a major issue as yet in Australia but experience in UK and USA indicates future possible trends.

For example in the UK even the most popular programs struggle to maintain the same audience they have in the past. "In the late 1990s the most popular programs on terrestrial television could expect to attract audiences of 16-17 million, today 14 million is a common ceiling."<sup>6</sup>

This fall in revenue clearly leads to a decrease in the overall quality of the programs broadcast.

### Content of multi-channels

Superficially, more television programs delivered for free would appear to be attractive to viewers and would therefore assist the take-up of digital services.

The quantity of programs may increase but the quality will decrease.

With limited or no additional revenue to fund new channels, without significantly detracting from existing expenditure, broadcasters will have limited resources to produce new product or purchase programming of a reasonable quality.

Although low quality channels would act as an incentive to some viewers to convert to digital it will be limited by the quality of the programming and will have a detrimental affect on the quality of the programs provided by each broadcaster across the range of their channels.

New channels would contain very little if any newly produced programming. Financial constraints mean that any programs that were newly produced would be limited to very inexpensive programming for example chat/talk shows. This is not dissimilar to subscription channels in Australia which produce very few original programs. However, it is not difficult to assume that free to air multi-channels without funding from subscriptions would struggle to even meet pay television's level of production.

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<sup>6</sup> OFCOM Review of Public Service Television Broadcasting – Is Television Special? P44

As a general comment, with finite programming available at a reasonable price new channels would look very similar to existing subscription channels although given the lack of subscription funding, free to air channels would be of an inferior quality.

### United Kingdom - Freeview

Freeview/Top Up TV is a hybrid free and subscription multi-channelling service which has been a significant driver for take-up of digital in the United Kingdom.

However, due to the very different nature of broadcasting in the UK and Australia it is difficult to draw direct comparisons between the introduction of digital television in the two countries and difficult to view the high take-up of Freeview as a guide to the potential success of free to air multi-channelling in Australia.

The funding model for television is very different in the United Kingdom with a television licence fee paid by all citizens resulting in very high levels of public funding to the sector, a relatively small number of advertiser based broadcasters and a very strong subscription television sector. In contrast Australia has lower levels of public funding, a relatively higher number of commercial broadcasters and a weaker subscription sector.

It is worth noting that historically Freeview was led by BSkyB as a “teaser” strategy to encourage more subscribers to their main subscription service and a very well resourced BBC with responsibility for all marketing of the service. It began as predominantly a platform to deliver additional publicly non-advertiser funded programs and a number of channels created for and funded by subscription platforms.

As penetration has grown, commercial networks have added to their services through the Freeview platform. Whereas channels on the platform were originally created for and distributed through subscription and retransmitted on the Freeview service (eg ITV2) increasingly channels are being created for the Freeview service.

Freeview has been successful but as commercial broadcasters spread their resources more thinly across more channels there is increasing concern from the regulator, OFCOM regarding the ability of the commercial broadcasters to maintain their public service obligations in an increasingly fragmented market. It is interesting to note that in this environment commercial broadcasters are asking OFCOM to increase their permitted level of advertising to assist them in the changing landscape.

There is now considerable debate in the UK now concerning how digital will be delivered to the rest of the population (for an anticipated switch off of the analogue in 2012) in a manner that does not destroy the public service advantages of free television.

### **Subscription multi-channelling**

Seven Network has argued in its submission to DCITA that free to air multi-channelling would be supplemented with subscription multi-channelling.

Under their commercial television broadcasting licenses licensees are only permitted to provide commercial television broadcasting services.



It is Nine's view that commercial television licensees should not be permitted to use the digital terrestrial spectrum to run a different type of service (ie subscription services) using the spectrum that has been allocated for a specific purpose, namely a commercial television broadcasting service.

The decision to restrict commercial television broadcaster's use of the spectrum is part of the framework designed to deliver high quality free to air services. Limiting the use to which the spectrum can be put, and requiring broadcasters to use all of their spectrum for broadcasting a free commercial television service is integral to ensuring the highest quality free to air commercial service possible is delivered in both analogue and digital. This ensures that spectrum which should be dedicated to free to air broadcasting is not used for other services and resources currently dedicated to free to air are not shifted to alternative businesses.

It is our submission that if broadcasters were able to use part of their spectrum to deliver alternative types of services this would detract from the free to air commercial services they currently provided and will provide in the future.

### **Mandating digital tuners**

It is Nine's view that the Government should mandate digital tuners in new television receivers sold in Australia.

This should be done in a similar way to the 2002 decision in the United States of the Federal Communications Commission to mandate digital tuners in new television receivers with a series of staged targets and timeframes for suppliers, starting with larger sets and moving onto smaller sets over time.

Despite the wide availability to digital equipment in Australia, a large number of analogue television sets continue to be sold. 1.5 million analogue television sets were sold in Australia last year. This large quantity of new analogue equipment continuing to come into the market is delaying the digital take-up rate and the ultimate switch off of the analogue service. It is also confusing viewers.

Mandating digital tuners in new receivers would stimulate the take-up of digital technology in the market and contribute to establishing an automatic digital replacement cycle.

By having a phased in approach starting with the larger equipment, consumers will still be able to make full choices regarding their purchases. Displays of all sizes without tuners will remain unaffected and for a considerable period of time analogue equipment choices will remain.

Given the increased number of high definition programs in Australia and the increasing uptake of digital world wide we are also of the view that in addition to the phased in mandating of digital tuners, there should be a high definition mandate. In relation to receivers with a high definition capable display, the mandated tuner should be capable of displaying a high definition signal on that display ie should be a high definition tuner. It is not logical that a high end integrated set with a high resolution high definition capable display should not be capable of receiving and displaying a high definition signal.

The price imposition of a high definition tuner would not be great at the moment (current retail prices indicating the price difference between a standard and high

definition set top box is \$200) particularly when factored into the cost of an integrated high end display. We understand that currently some manufacturers are limited in their ability to access high definition integrated receivers due to availability from overseas markets. However, with the increasing shift towards high definition throughout the world more high definition tuners will become available and the price differential will fall even further.