



SONY AUSTRALIA LIMITED

**SUBMISSION TO
HOUSE OF REPRESENTATIVES STANDING COMMITTEE
ON COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS**

INQUIRY INTO THE UPTAKE OF DIGITAL TELEVISION

MAY 2005

1. INTRODUCTION

The transition to Digital Television (DTV) is the most fundamental change in broadcasting since the introduction of television itself.

Sony has supported the Government's policy to introduce DTV to Australia, and to mandate High Definition (HD) TV. For a period of time, consumers have been moving towards larger screens and flat display technology (providing higher picture quality). The rapid take-up of DVD technology worldwide is a clear market indication of the demand for high quality sound and vision. DTV, in particular HD TV, is the consumer's logical next step. HD is a key element of the Government's digital framework. HD is a wide-screen format that delivers amazingly real, lifelike images that simulates cinema film quality. It delivers a resolution and quality of sound and vision that is up to five times superior to Standard Definition (SD) format.

Mandating of HD is significant in light of its increasing success overseas. We are now seeing the inevitable global move towards HD television broadcasting and an array of HD consumer products. As an example, Sony has recently released to the Australian market a HD Handycam that now allows consumers and business professionals (e.g., the educational, corporate and presentation markets) to utilise affordable HD production technology. Sony Australia has plans to extend the HD Handycam range to offer more HD choice to the consumer. Next generation computer gaming will also utilise HD. This move, globally and in Australia, is clearly driven by the consumer's demand for the highest quality of sound and vision, and replicates the success of DVD equipment.

Digital conversion in Australia is a key issue for Sony, as well as the wider consumer equipment industry, given the significant investment that has been made in preparing and launching DTV and HD technology in Australia. Consequently, Sony has taken a keen interest in discussion relating to digital broadcasting, and in particular the current digital review process being undertaken by the Government.

Sony welcomes the opportunity to contribute to the inquiry into the uptake of digital television being undertaken by the House of Representatives Standing Committee on Communications, Information Technology and the Arts.

Sony would be pleased to meet with the Committee to discuss further its views on these and other DTV matters.

2. SONY AND DIGITAL TELEVISION

Globally, Sony is a market leader in digital displays/television receivers, cameras and tape formats. Sony is also a major supplier of broadcasting equipment for both television production and transmission in the Australian marketplace, and is currently the number one supplier of HD format production equipment supplied to broadcasters in Australia and around the world.

Sony has continued to extend its technologies – being the first to introduce both Flat Display (the Wega FD Trinitron™) and HD television technology. Subsequently, the market has followed Sony's lead with flat display, Plasma and HD products.

Recently, Sony has introduced a HD Handycam to the Australian market. Now, consumers and business professionals (e.g., the educational, corporate and presentation markets) can have access to affordable HD production technology.

Through its Sony Pictures Entertainment business, Sony is the owner of one of the largest programming libraries in the world and is a major provider of content for TV in many formats, including in the HD format.

3. SUMMARY

Sony believes that the Government has taken the correct decision to introduce DTV to Australia and to mandate HDTV. However, Sony believes that the take-up of DTV is now not proceeding as quickly as earlier expected. Although there is undoubted consumer interest in DTV and HD, there are a number of impediments to encouraging increasing conversion to digital.

Sony believes that action on the following issues would lead to higher levels of consumer take-up of DTV and allow the Government to meet the digital conversion timetable:

- **Analog Cut-off:** Sony believes that it will be vital for the success of digital broadcasting that a decision on an early shutdown of the analog network is made as soon as possible. While it may be difficult to achieve the 2008 target, it is imperative that the Government commit to meeting a short-term target for analog shutdown. This will allow more resources to be directed to promoting DTV/HD and encourage increased consumer take-up. Current uncertainty around the analog switch-off is a major inhibitor to consumer take-up of DTV: this situation must not be allowed to continue.

- **Digital Simulcasting/Multichannelling:** Sony believes that the Government should remove the requirement to provide a digital SD simulcast of the analog service. Broadcasters should be able to determine their own use for the 7MHz of spectrum allocated for digital transmission purposes. Mandating the simulcast is resulting in a poor quality HD service due to lack of bandwidth available for both HD and SD.

Sony also believes it is desirable to remove current restrictions on multichannelling so that broadcasters can make their own commercial judgments and consumers can have the opportunity to access more digital programming. As has been seen in the successful UK DTV market, access to digital content is a key driver of take-up but is severely limited under the current Australian policy setting.

- **HD Programming/Content Quota.** Sony believes that the introduction of the HDTV content quota has been an important tool to demonstrate the benefits of HD technology to Australian consumers. Sony is keen to see a continuation and a substantial increase of the HD content quota as it will further support the Government's policy of digital conversion. HD programming is now widely available. An increase in the quota will not impose a burden on broadcasters but it will accelerate the introduction of HD digital. In addition Sony believes that there should be a requirement for a minimum level of locally produced HD content. Australia must build HD production local expertise to continue to be competitive on the world market in television and film production.
- **Marketing and Promotion:** Marketing and promotion of DTV/HD is vital to educate consumers and encourage the move to digital. Government and industry need to commit more resources to these initiatives in order to energise the market and encourage rapid consumer take-up.
- **Access to EPGs and Interactive Services:** DTV provides the opportunity for consumers to access Electronic Program Guides (EPGs) and interactive TV services (iTV). These new services clearly differentiate DTV from analog and offer real consumer value: their availability will assist to create a demand for DTV. However, currently there is no EPG content and insufficient iTV services to interest consumers.
- **Test/Conformance Centre.** Sony believes that there is value in industry and Government cooperating to establish a local testing and conformance centre. This will ensure that consumers have a greater degree of confidence in the operation of digital products against agreed standards;
- **Integrated Digital Tuners.** Sony believes that there are sound reasons for the Government to consider requiring manufacturers to integrate digital tuners in televisions sold in Australia. This move would further drive consumer take-up of digital TV and encourage broadcasters to provide a stronger DTV/HD content offering in the knowledge that there is a growing customer base for this content. A model similar to that adopted in the US (requiring TV sets of certain sizes to include digital tuners by specified dates) could be adopted in Australia.

4. THE INQUIRY

The terms of reference for the Committee's inquiry are that it should review and report on:

- The rollout process for digital television, including progress to date and future plans.
- Options for further encouraging consumer interest in the uptake of digital television.
- Technological issues relevant to the uptake of digital television.
- Future options.

In addition, the Committee released a discussion paper which commented on a number of issues associated with the current state of digital TV and consumer take-up. The discussion paper flags a number of key points for the inquiry:

- What are the key drivers for uptake of digital television?
- Has the retail sector embraced digital television technology?
- How can industry further facilitate the uptake of digital television?
- What role do digital television technical standards play and how can any problems be resolved?
- Can the local communications industry be more involved?

Sony has provided in this submission its views on a number of these issues as well as other matters relevant to the current inquiry.

5. ISSUES

A) Roll-out: Progress to Date

Sony has supported the Government's position to introduce DTV to Australia, and to mandate HDTV. We are now at the start of the inevitable global move towards HD television broadcasting and an array of HD consumer products. This is clearly driven by the consumer's demand for the highest quality of sound and vision, and replicates the success of DVD equipment.

According to the latest Digital Broadcasting Australia (DBA) research 777,000 free-to-air digital devices, comprising both Set Top Boxes (STBs) and Integrated TVs, had been sold at the end of March 2005. While this represents approximately 12% of the total Australian households, the figure also masks some important trends. In the last 15 months, approximately 470,000 digital devices have been sold, up from a total of approximately 300,000 in the preceding three-year period from the introduction of digital TV in 2001. This is a significant leap in sales.

Importantly, of new TVs bought, it is estimated that more than 35% were digital devices. In March 2005, this had increased to 40%. Moreover, of the more than 50% of units sold, which were large screen (ie, over 64 cm), nearly 80% were sold with digital STBs. Sony estimates that already more than 30% of DTV customers have adopted HD, despite the current price premium relative to SD and fewer available models. Consumers seem increasingly to be 'future proofing' their DTV purchases by moving to HD. As an aside, the high attachment rate of digital devices to sales of large screen TV sets suggests that the retail sector is embracing this technology.

While there are extremely encouraging signs with consumer acceptance of DTV and HD, there are undoubtedly issues that need to be addressed around driving more significant consumer take-up.

Sony believes that consumer take-up of DTV/HD in Australia is primarily driven by:

- Understanding and acceptance of the value offered by DTV when compared with analog TV;
- Availability of significant levels of digital/HD programming on free to air (FTA) networks; and,
- Availability of competitively priced DTV consumer equipment;

Unfortunately, Sony does not believe that the first two requirements have been met.

Initially Sony was pleased with the take-up of DTV by Australian consumers, in particular the adoption of HD television. Market penetration was consistent with Sony's forecasts, bearing in mind that DTV was an emerging technology, and there was a period of uncertainty about the timing of the introduction of HD. Furthermore, the market was relatively immature, with Australia still in the 'early adopter' stage.

However, Sony does have concerns about the current situation with respect to DTV take-up. Although there has been an increase in DTV units sold in Australia, reflecting the ability to convince consumers who are in the market to buy a new TV of the desirability of digital, it is questionable whether the growth necessary to drive digital conversion at an increasing rate is evident. This can be attributed to a range of factors, which have made it difficult to convince consumers who are not updating their TVs of the benefits of DTV/HDTV, in spite of the increasing availability of attractively priced consumer equipment. These factors include:

- insufficient content and program choice to demonstrate clear consumer benefits (in particular additional content through new channels and HD programming, EPGs and iTV services);
- insufficient and inadequate promotion of DTV/HDTV by industry (broadcasters, retailers and manufacturers) and Government; and
- continuing analog TV transmission and the lack of clarity about the eventual shutdown of the analog network, both of which create uncertainty and delay in the DTV market.

These and other issues related to encouraging consumer take-up of DTV/HD are discussed below.

B) Options to encourage further consumer interest

With the decision having been made to adopt DTV, and to mandate HDTV, it is now vital to ensure that policies and actions are implemented to ensure that there is not only a rapid conversion to digital broadcasting, but that the benefits of HDTV are made available to all consumers.

Sony believes that there are a number of issues that need to be addressed to ensure that there is a more rapid conversion to DTV and that consumers are the beneficiaries of greater choice and diversity in programming, and can take advantage of more affordable DTV equipment. Some of these issues are outlined below.

Sony does not believe that availability of DTV consumer equipment or pricing is an inhibitor to take-up. There is a wide range of products available from many manufacturers. Prices have already fallen significantly since the introduction of DTV. The industry expects that prices will continue to fall as consumers continue to embrace the digital experience and a broader range of digital/HD equipment becomes available. Over time, and as the market expands, prices for equipment will naturally fall further. This reflects the same market outcomes that were evident following the introduction of earlier consumer technologies such as video recorders, CD players and more recently DVD players.

i) Analog Switch-off

There is a need for clarity around the analog switch-off date. Sony strongly urges the Government to determine and to announce a date for the shut-down of the analog network.

Sony believes that it will be vital for the success of digital broadcasting that a decision on an early shutdown of the analog network is made as soon as possible. Sony believes that consumer uncertainty created by the current situation, where analog continues to operate while attempts are made to promote digital, is an inhibitor to consumer take-up of DTV. It is also fragmenting the industry effort, as resources continue to be directed towards marketing and sales of analog equipment. While this situation continues the process of digital conversion will not be effective.

A decision to shut down the analog network will focus the efforts of all stakeholders on the success of digital conversion. It will assist consumers with their purchasing decisions and will also assist the equipment supply industry with product planning, which is necessarily long-range.

Moreover, Sony believes that there must be a national shutdown of the analog network, and that regional markets should not be exempted from this requirement. Otherwise, regional and rural viewers risk becoming 'second-class citizens' when it comes to benefiting from the Government's DTV policy.

Australia could look at a number of models to implement analog switch-off. For example, the UK model proposes a move to digital-only broadcasting in a staged switchover between 2008 and 2012. Sony believes the Government could adopt a similar arrangement for Australia.

Even consumers who have not purchased a DTV set will be able to receive digital programming with the addition of a STB. These are already extremely affordable (some SD STBs already sell for less than \$150) and by the switch-off date will be even cheaper. Where affordability is an issue the Government may wish to consider a subsidy scheme to complete the conversion to DTV.

ii) *Removal of Digital Simulcast/Opportunity for Multichannelling*

Sony believes that the Government should remove the requirement to provide a digital SD simulcast of the analog service.

Broadcasters should be able to determine their own use for the 7MHz of spectrum allocated for digital transmission purposes based on their commercial judgements. This would create an opportunity (but not a mandated requirement) for FTA broadcasters to provide additional digital content to consumers.

This approach would also provide the opportunity for the broadcast of 'true' 1080i HD (ie, at a higher bit rate to minimise compression issues), should a broadcaster wish to do so. This is a critical matter in light of the inevitable global trend towards HD television broadcasting and HD consumer products.

Sony is firmly of the view that take-up of digital television is driven by consumer choice, in particular the ability to access a wide range of digital programming. However, the current digital framework limits the consumer's access to digital content through the FTA commercial and national broadcasters. From a consumer perspective, at this point in time, there is little to differentiate analog and DTV/HD programming; it is not a compelling consumer proposition to convert to digital at the moment. It is important that Australian broadcasters have the ability to significantly increase the transmission of digital programming. This will further encourage the take-up of digital TV services.

When Australian FTA networks have the ability to significantly increase the transmission of DTV/HD programming, it will assist the equipment supply industry to more successfully promote DTV/HD technology and associated products to our consumers and our retail partners.

Sony believes that overseas experience (eg, in the UK) demonstrates the advantages of multichannelling in encouraging further take-up of digital services. In the UK, DTV take-up has been driven by increased consumer choice and program availability and has now reached 60% of the market. As a result, the country has been able to make significant progress towards a timetable for analog switch-off.

Sony believes that there is significant content available for additional channels. Firstly, the entire suite of programs, which presently appear on the FTA network schedules, could be retransmitted or repackaged to appear on multichannels. Secondly, there are many hours of programs from multiple sources not otherwise committed, which could appear on multichannels. Such sources are both locally and internationally based, and cross the entire range of program material, ie news, sport, feature films and episodic television programs.

Increasingly, a larger proportion of program material will be available for multichannelling in digital HD format. Globally, the trend towards HD production of not only feature films and television series, but also news and current affairs programs is increasing. In the UK, the BBC is developing plans to produce all its TV output to meet HDTV standards by 2010. In addition, the vast majority of new television programs and new features released in Australia to FTA networks by Sony Pictures Television Pty Limited is available in HD format, and local networks have been acquiring and broadcasting these programs in HD. Sony Pictures is also in the process of transferring its library content to HD format; a sizeable number of library titles are now available to be broadcast locally in HD format.

Sony believes that multichannelling provides an opportunity for broadcasters to develop new programming, marketing and advertising business models, which will benefit consumers and the broadcasters. As a result, with multichannelling reaching a critical mass of viewers, Sony would expect multichannel providers to be able to source new, additional advertising revenue streams.

iii) HD Programming/Content Quota

HD content is a key driver of consumer take-up of HD equipment. At this point in time, however, there is insufficient HD content being broadcast in Australia to create significant differentiation from that offered on analog channels. This is an inhibitor to encouraging consumer acceptance of DTV.

Globally, production of HD content is increasing with many TV programs and films already being shot in HD format. This trend will only increase. Now, Australian broadcasters can source significant HD TV content. If the networks broadcast increasing levels of HD programming more consumers will be attracted to purchase HD equipment.

Notwithstanding the current situation, Sony believes that the Government must retain, and even strengthen, its commitment to HD programming in order to encourage DTV take-up. In this regard, Sony strongly supports the continuation of the HD content quota, and believes there is merit in increasing the HD broadcasting requirements. This will encourage the networks to provide consumers with more choice of HD programming and will further support the Government's policy of digital conversion.

Sony also believes that the HD quota should be revised to require the broadcast of a minimum percentage of locally produced HD programming similar to the analog local content requirement. This initiative would help to boost the local HD production industry as currently there is little non-studio based local HD production broadcast. As a result, consumers are deprived of appealing, Australian HD content such as major sports events, which is demonstrably a driver of TV sales, and drama. Sony believes that this is another obstacle to driving take-up of DTV.

Australia must also build its local HD production expertise in order to continue to be competitive on the world market in television and film production. A local HD content requirement, and the ensuring HD production, would help position Australia to be a regional HD production centre and exporter of content.

iv) Marketing and Promotion

Significant marketing and promotion of DTV/HD is vital to educate consumers and encourage the move to digital.

For its part, Sony has been undertaking an active marketing and educational program, which has been specifically aimed at consumers and our retail partners. For example, over the past 12 months Sony has undertaken consumer, retail and media promotion activities including:

- Regularly distributing 200,000 copies of Sony 'Pulse' magazine nationally to consumers and our retail partners. Pulse is a detailed product guide, which includes information on Sony's digital TV range, and explanatory articles on the benefits of this new technology.
- Actively working with our retail partners to help them build their consumers' understanding of DTV/HD through, for example:
 - A Sony retailer education and training roadshow (during May and September 2005 in Sydney, Melbourne, Brisbane, Perth and Adelaide);
 - Developing and producing HD in-store displays to help explain the concept of HD to the consumer and give retail floor-staff the opportunity to demonstrate the benefits of HD TV. These displays have been located in eight key retail stores since October 2004
 - Introducing (in 2005) a concept called Sony World to use in-store areas to demonstrate and educate about DTV and HD products. This will pilot in NSW and then be rolled out across the country in conjunction with retailer partners from June onwards.
- Providing DTV/HD information on the Sony website (<http://www.sony.com.au>), including a consumer Q&A section which clearly explains the technology. (This information can be found at: <http://www.sony.com.au/article.jsp?id=3461>)
- Hosting (in 2004) the Sony Experience More (SEM) tradeshow event in Sydney which had as a centerpiece the promotion of DTV/HDTV
- Promoting information on other HD related products such as HD camcorders and a new projector range that is capable of receiving both SD and HD signals.
- Sponsoring Tropfest, the world's largest short film competition. Sony uses this platform to explain HDTV and film-making through a consumer education event in Sydney called Roughcut (<http://www.sony.com.au/tropfest/category.jsp?id=23781>) and also through activities on the day at the event itself.
- An active PR program involving regular hosting of briefing sessions with Sony Australia experts and Australian media to explain DTV and HD

However, the reality is that there has been relatively little marketing of DTV/HD to date amongst all stakeholders: Government, broadcasters, manufacturers and retailers. While there has been some advertising by the networks, there have been no high-profile, extensive and co-coordinated promotional campaigns. Effective marketing has certainly been hindered by the limited digital programming and services being offered and the uncertainty around the analog switch-off date.

Sony believes that there must be a much greater commitment on the part of stakeholders in future to marketing and promotion to support the drive to digital conversion.

This marketing campaign can only be successful, however, if other impediments to DTV/HD take-up are also addressed. Should the policy changes that Sony recommends be adopted (eg, analog switch-off date, removal of the simulcast requirement, option to multichannel, more digital content, etc) so that an environment more conducive to DTV/HD take-up is created, there will be a compelling reason for a cross-industry promotional campaign that is likely to be highly effective.

C) Technological Issues Relevant to Take-up

Sony wishes to take the opportunity presented by this review process to raise with Government several other issues which the company believes are critical to the successful implementation of the Government's digital television policy, and to driving a more rapid conversion to digital technology.

i) Electronic Program Guides

Consumer electronics companies, including Sony, are keen to introduce Personal Video Recorders (PVRs) to the Australian market. PVRs will further enhance the digital TV experience and drive digital take-up by allowing consumers to have greater choice and flexibility in their TV viewing.

Crucial to the success of PVRs are suitable Electronic Program Guides (EPGs). An EPG allows consumers to use their remote control to view availability of programs and obtain extra information about them, as well as to select, record and store content, using their PVR. EPGs in conjunction with the availability of PVRs represent an important means of driving the industry and have become very popular in Japan.

Unfortunately, in Australia no EPG information is being transmitted by the FTA broadcasters. This continues to be a major issue for consumers and equipment suppliers and remains an obstacle to increasing acceptance of DTV.

ii) Interactivity

Interactivity is a major feature of DTV, allowing viewers access to additional program-related content or the ability to communicate back to the broadcaster (eg. to provide a viewer opinion or to purchase merchandise). However, there are still issues associated with delivering iTV services in Australia.

The current lack of interactive content offered by the broadcasters is a further impediment to creating an incentive for the broader consumer market to switch from current analog equipment to DTV.

ii) Test/Conformance Centre

Sony believes that there is value in industry and Government cooperating to establish a local testing and conformance centre. This will ensure that consumers have a greater degree of confidence in the operation of digital products against agreed standards.

There are a number of models for the establishment and operation of such a centre. Sony believes there is merit in a 'user-pays' approach, whereby equipment suppliers and broadcasters would pay a centre operator for providing test services. Ideally, Government should have a significant role in the centre, perhaps through providing start-up funding.

iii) Integrated Digital Tuners

Sony believes that there are sound reasons for the Government to consider requiring manufacturers to integrate digital tuners in televisions sold in Australia.

This move would ensure further consumer take-up of DTV. For broadcasters, the resulting sizeable and increasing DTV/HD customer base will provide an ability to offer new and differentiated digital services to consumers. This will contribute strongly to the Government's policy objective of digital conversion.

Sony has had some experience of the requirement to offer inbuilt digital tuner televisions (IDTV), and the commercial advantages of supplying IDTV equipment. Sony, and other suppliers, are now introducing IDTV models into the US market in compliance with the FCC's requirement that all newly manufactured TV sets will have to progressively (over a five year period) include digital terrestrial tuners.

It is Sony's view that requiring equipment manufacturers to supply IDTVs will help drive a more rapid uptake of digital TV in Australia. Moreover, the US approach which requires a progressive and scaled roll-over to IDTV provides a useful model for Australia to consider.

In addition to setting a schedule for mandating the integration of digital tuners, Sony believes that there should be a mandated requirement for all IDTVs and STBs to decode both HD and SD signals.