FACTS

DRAFT REPORT

ON

BROADCASTING

SUBMISSION TO PRODUCTIVITY COMMISSION
BY
THE FEDERATION OF AUSTRALIAN
COMMERCIAL TELEVISION STATIONS

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FACTS SUBMISSION ON THE PRODUCTIVITY COMMISSION'S DRAFT REPORT ON BROADCASTING

1. Preface

FACTS wishes to comment on a number of aspects of the Commission's Draft Report on Broadcasting. These include:

- Broadcasting licences and spectrum allocation (Chapter 4)
- The road to digital television (Chapter 6)
- Regulatory restriction on entry into broadcasting (Chapter 7)
- Content regulation, consumers and competition (Chapter 9)
- Codes of practice and compliance (Chapter 10).

Some FACTS members have made separate submissions, but support this submission. The Seven Network has made a separate submission, and does not support the views expressed on a number of issues in this submission.

2. Broadcasting licences and spectrum allocation

The Commission puts forward a number of arguments in favour of separating spectrum licences from broadcast content licences. We believe that the Commission has over-stated the costs, constraints and inefficiencies of the current system, along with the benefits of spectrum licences, while underestimating the cost of such an approach and the difficulties involved in introducing it.

As an overall comment, the Commission's preferred approach seems to overlook the ubiquitous nature of broadcasting, and the resulting public expectations of it as a universal service; the longstanding planned balance of metropolitan and regional services; the level of investment by the public in reception equipment; and the fundamental differences between subscription and free-to-air broadcasting.

It is worth exploring each of these points in turn.

Ubiquitous nature of broadcasting: Planning of broadcasting services was originally based on defined service areas, within which a broadcaster was **required** to provide a service that was "adequate" in terms of technical quality and coverage. These service areas were expanded by regulatory decision to cover most of Australia.

This **obligation** to provide an adequate service continued only in an attenuated form under the *Broadcasting Services Act 1992*. However, Parliament and the ABA have continued to press licensees to provide universal coverage within their service areas. Viewers within defined service areas have a strong expectation of service, even if it is not mandated. Parliament has responded to this expectation, with the result that most of the population now has a choice of analog television services.

The *Digital Conversion Act's* requirement of "equivalent coverage" effectively reinstates the original legislated requirement to provide an adequate technical service throughout the

service area. For analog service, this required the installation of additional transmitters and translators, which meant that multiple channels were required to serve a given area. While digital transmission technology gives greater flexibility in channel planning, the analog infrastructure in place will in the medium term prevent optimum structuring of the broadcast planning for digital television.

The balance of metropolitan and regional services: Government policy has sought to ensure that regional areas of Australia enjoy a similar range of free-to-air television services to those available in metropolitan areas. This is the main reason why there are generally only six 7 MHz channels available in metropolitan centres.

It would certainly be feasible – though contrary to longstanding Government policy and emphatically opposed by this industry - to increase the number of channels in metropolitan areas by reducing the number of channels in adjacent regional areas. While this would involve a fundamental change in planning philosophy for broadcasting, it could potentially result in higher returns from the sale of broadcasting frequency.

Investment by the public: Worldwide, broadcasting receivers would be the most numerous major consumer hardware product. There are more TV receivers in the world than telephone lines connected, and vastly more TVs than PCs.

For the considerable outlay that members of the public make in television receivers, they expect, by right, to receive a full range of free-to-air broadcast services. Whether or not this is reasonable or has any basis in law, it has been accepted time after time in recent years by Parliament - most recently in last year's *Digital Conversion Act*.

Difference between free-to-air and subscription: In assessing the potential value of spectrum, it is important to remember that free-to-air broadcast makes no direct income from the viewer. Subscription services, including mobile phones, MDS, subscription broadcasters and similar services effectively on-sell, as part of consumer subscription contracts, sharing rights to the use of spectrum.

The Draft Report assesses in some detail what it sees as the shortcomings of the present system. We believe that it is far more efficient and reflective of community wishes than the Commission considers. We also believe that the alternative proposed by the Commission would not only be unacceptable to large parts of the community, but would be difficult to implement and produce technically inferior outcomes. Nor would it necessarily guarantee greater monetary returns from spectrum use. These points are developed further in the following section.

Efficient spectrum allocation: Current broadcast planning follows processes used in other major advanced countries. It uses the same technical planning tools, and similar combinations of economic and social criteria to assess community "needs". The policy framework for this stems from the longstanding view of Parliament that television broadcasting should be a universal service and that metropolitan and regional markets should, as far as practicable, have access to a similar range of licensed and national broadcasting services.

Within this policy framework, it is hard to fault the Australian Broadcasting Authority's spectrum planning and allocation. In particular:

- Licensees are not allocated spectrum other than for planned transmitters. We are not aware of any instances of broadcasters "hoarding" spectrum.

- Wherever practicable, infill translators are required to re-use frequencies used elsewhere in the licence area, or in adjacent markets.

- While it is true that current technology can reduce an analog receiver's susceptibility to interference, in the absence of a mandated Australian receiver standard, there can be no assurance that sets now on the market incorporate this technology. We understand that a high proportion of TV receivers, particularly the lower cost receivers, would not have this improved performance. The ABA could only take such improvements into account in planning if standards were established and mandated. In practice, that would take many years to implement as receivers typically remain in use well in excess of 10 years. It would be a courageous Government that accepted planning on the basis of a substantial number of viewers requiring new analog receivers. The legacy issues of the existing receiver population cannot be ignored.

- Cable has not been a practical alternative to low-power transmitters for shadow in-fill, except for extremely localised instances (e.g. multistorey buildings, clusters of adjacent properties). It may be practicable in future to use commercial cable installations, subject to the pricing approach of cable operators.

- The broadcast bands are not the exclusive preserve of broadcasters. They are already used for a range of other services, some licensed (low-power FM) and some not (wireless microphones, medical telemetry, VCR tuners, etc).

Efficient spectrum use: The Draft Report suggests (page 60) that the present approach gives "an incentive for individuals to over-use the finite resource". This may happen with narrowcasting licences, where the Commission was told of hoarding of licences, but we are aware of no hoarding of broadcast licences. The allocation procedures (which require the service to be provided within a specified period) prevent this.

More generally, the cost of building and operating a transmitter is a significant disincentive to providing services that are not commercially warranted, or not required as a community obligation. The ABA and its predecessors have never, to our knowledge, required transmitters to be vacated on planning grounds, which might be expected if broadcasters were installing unnecessary transmitters. However, they have regularly required broadcasters to switch to different frequencies to allow more efficient planning.

Spectrum licences: The arguments for spectrum licences largely assume that the present broadcast licensing system is inefficient and does not serve the public interest. Those assumptions are highly disputable. There are few solid grounds for believing that spectrum licences would be more efficient, provide a better financial return to Government, and satisfy the range of established Government and community expectations about free-to-air broadcasting services.

At a practical level, the process of converting existing Radiocommunications Act licences that are moulded to licence areas into tradeable spectrum lots would be extremely difficult. Nor is it clear how conditions on licences that preserve viewers' rights to receive a broadcast service could be maintained. The separation of spectrum and broadcast licences could give rise to a situation whereby a spectrum licensee (e.g. a multiplex operator) goes bankrupt and is unable to maintain the service.

Financial returns from broadcast spectrum: The Draft Report may suggest to readers that Australian broadcasters are uniquely advantaged by paying licence fees rather than spectrum charges. As FACTS pointed out in its May submission to the Commission, Australian broadcasters pay far higher "usage" fees than their counterparts in North America. The table on page 41 of that submission compared licence fees paid by commercial

television licensees in six broad revenue ranges with those paid by comparable Canadian and US commercial stations. The Australian stations pay from 1.5 - 4 times as much as Canadian stations, and from 58-217 times as much as US stations. Because Australian television licence fees are steeply progressive, Australian stations earning the most revenue pay far higher licence fees than their overseas counterparts

The Commission suggests (page 75) that, on the basis of the $824,000 paid annually for each 1MHz of spectrum by mobile telephone systems, the $195 million per annum that commercial television stations currently pay in licence fees would barely be enough as a spectrum fee for the spectrum they use. It is always difficult to find appropriate benchmarks in a "thin" market such as that for spectrum in and around the broadcast bands. However, it needs to be borne in mind that there are significant differences between spectrum suited for mobile telephony (line of sight range, reusable at short intervals) and spectrum suited for high power broadcasting channels (80-100km range, normally reusable at high power only at about 150km intervals). These potential uses intersect only at the top end of the UHF band, where the television allocations are (because of their limited range) only suited to infill use by low-power transmitters, but the spectrum is potentially usable for telephony or other cellular uses.

We believe that a more realistic benchmark for broadcast spectrum value is the sale in 1998 of 6MHz of spectrum in the vicinity of channel 19 in the international UHF band. For historical reasons, this is part of a 98MHz bloc allocated to non-broadcasting uses in Australia. This auction realised $1.4 million, or $235,000 per 1MHz. Annualised over the 15 year licence term, this suggests that broadcast spectrum would be worth $16,000 per 1MHz per year, or $48 million per annum for the entire spectrum used by television broadcasters.

The Commission's arithmetic also seems to assume that spectrum is spectrum, wherever it is geographically. Clearly, parts of Australia are among the most electronically isolated - and most lightly populated - regions in the world. Broadcast spectrum is not scarce in much of Australia, so its notional market value would be far less than in spectrum-constrained areas such as the Sydney region.

It is worth adding that commercial television licence auctions provide a poor guide to the value of the spectrum involved. In auctions in 1996, a licence in the small Mildura market sold for much more than a licence in Darwin. The $36 million paid in 1998 for a commercial television licence for regional and remote Western Australia reflects the scarcity value of a broadcasting licence rather than spectrum, since most parts of that huge licence area have many unused television channel allocations.

Separating broadcast and spectrum licences might clarify the value of each licence. The question is whether the transparency and claimed efficiency gains would justify the cost and disruption involved. FACTS believes that it clearly would not.

3. The road to digital television

The Draft Report bases some of its recommendations on digital television on technical or part-technical considerations that are not well-founded. It also relies heavily on advice from submitters about likely receiver prices that is incomplete or misleading.

High definition television (HDTV): The Commission concludes that the cost of specifying what it calls a "unique standard" are likely to outweigh the benefits (page 120). The Draft Report sets out three elements to this "unique standard" which it considers will add significantly to the cost of equipment. While each of these elements is incontestably part of either the legislated requirements or the Australian standard, the Draft Report draws mistaken conclusions about them.

The Commission notes that Australia is the only country to "mandate" HDTV. Two comments need to be made. The first is that "mandating" HDTV (by which the commission presumably means the legislative provision for an HDTV quota to be met by each broadcaster) does not mean that only HDTV receivers will be permitted or useable. It simply means that any equipment intended for television reception will need to be able to decode both HDTV and SDTV signals if it is not to "go to black" when HDTV is transmitted. The proposed Standards Australia receiver standard puts the point succinctly:

> "...reception equipment for Australian free-to-air digital terrestrial television broadcasts will require the capability to decode video formats including High Definition formats and AC-3 (Dolby Digital®) audio formats in addition to the MPEG-1 layer II audio formats.
> "Note that it is not expected that all digital television receivers will be capable of displaying high definition pictures and/or providing surround sound, but they must be able to decode these signals when they are transmitted and provide satisfactory pictures and sound" [1].

Depending on consumer demand, digital receivers available on the Australian market are likely to include:

- A range of set-top boxes, from simple devices intended for viewing point-to-multipoint television and datacasting in real time, to more complex set-top boxes with local storage, conditional access capability, a return channel, and high speed data transfer connections. These will include decoders with only a standard definition output, as well as decoders also able to provide an output capable of feeding large-screen display devices.

- Medium resolution receivers, most of which are likely to have widescreen displays, though there may be a continuing market for familiar "narrowscreen" receivers, incorporating an inexpensive digital decoder.

- Higher resolution receivers, ranging from somewhat better than high-end analog sets to receivers capable of displaying the 2.1 million pixels of a 1080I HDTV signal.

It is important to bear in mind that screen resolution is a continuum, and not simply a matter of medium resolution ("SDTV") and high resolution ("HDTV"), and that an HDTV signal can produce screen images of any resolution, depending on the display used. The digital decoding electronics required to do this make up no more than a few per cent of the cost of an integrated receiver (whether it has a medium or high resolution display).

The second point about "mandating" HDTV transmission is that it is not really relevant to the argument the Commission puts unless it can be guaranteed that, without a mandated requirement, no broadcaster would transmit HDTV programs. On the Commission's logic it might be assumed that because the US has not mandated HDTV transmission – merely allowed it - SDTV-only set-top boxes and receivers should predominate. To FACTS' knowledge, all digital receivers marketed in the US are capable of receiving all HDTV formats as well as SDTV transmissions. The reality is that allowing HDTV has the same broad market effect as mandating it.

Australia is the only country currently planning DVB high definition terrestrial transmissions. However, of the few countries yet to announce the introduction of DVB terrestrial digital services, Singapore and India are understood to intend some use of HDTV in a largely SDTV implementation of the DVB system. China has not yet adopted a digital transmission

[1] Australian Standard Digital Television – Requirements for receivers Part 1: VHF/UHF DVB-T television broadcasts, page 5.

system, but leans toward DVB, and has made it clear that HDTV will be part of the system it adopts. HDTV-capable decoding chips and set-top boxes have been developed by major companies for China's testing program.

It should also be noted that EchoStar, one of the direct-to-home satellite subscription services in the US will be providing an HDTV service shortly, using the DVB-S (satellite) transmission system. The decoders for this service will have an identical "back end" to those used for DVB terrestrial HDTV services. In fact, the chip-sets used to decode any MPEG-2-based transmission system have substantial commonality. The cheapest digital HDTV decoder currently available in the US is able to decode ATSC digital terrestrial signals and the proprietary MPEG-2-based HDTV service of the satellite subscription service, DirecTV. Decoder chips announced recently by Philips and ST Microelectronics will be capable of decoding any MPEG-2-based digital signal into any format.

Australia is not, in fact, the only country to specify Dolby AC-3 audio as part of DVB. Singapore has also done so. EchoStar, the US direct-to-home service, also includes Dolby AC-3 audio in its HDTV service. In relying on the evidence of Philips Sound and Vision as to the cost implications of including Dolby AC-3 audio, the Commission may not be aware that Philips is the main patent-holder of the MPEG-2 audio implemented in DVB. It has a significant financial stake in keeping Dolby AC-3 out of any DVB implementation.

The cost of including provision for Dolby AC-3 in digital receivers is trivial. Audio decoding chips routinely include provision for both MPEG-2 and Dolby AC-3. The Dolby licence fees are typically cents per unit.

The Commission concludes that the factors that it has identified mean that digital receivers will have to be designed and assembled specifically for Australia's small market (page 121). The fact is that there are a number of reasons why digital receivers would have to be designed and assembled for this market even if we opted for SDTV with MPEG-2 audio. We have 7MHz television channels (unlike Europe's 8Hz channels and the US's 6MHz channels). We will be using VHF for the major markets, whereas Europe will be using UHF only. Finally, cathode ray tubes have to be specially aligned for Australia because of the differences in the magnetic field. The world production line is a myth. So too is the notion that any divergence from the UK market (the only significant DVB terrestrial market so far) will condemn us to much higher digital receiver costs[2].

Overseas experience: The Commission's comparison of the experience of the United Kingdom and the United States (page 122-23) is too cursory to be instructive. One significant factor that is overlooked is that the UK's experience to date is of a subscription-service approach to digital television, in which digital decoders are either provided free or heavily subsidised as part of an extended subscription contract. By contrast, the US has adopted a free-to-air approach, in which viewers purchase reception equipment. Another distinguishing factor is that the UK has pursued a traditional planned approach to digital implementation, involving a rapid, co-ordinated roll-out of the kind planned for Australia (and implicitly criticised as too interventionist in the Draft Report). The US Government has allowed a less coordinated approach, with the result that barely 50% of the population so far has access to more than one digital service, while in many major markets one or more network stations are still not on-air.

The Draft Report quotes the retail price of set-top boxes in the UK (page 122). We would be interested to know (and perhaps Philips Sound and Vision could assist with this) how many

[2] A current trade-press advertisement by Pace Micro Technology plc (attached to this submission) says in part: "...And only we have the flexibility and experience to build specific solutions that meet your exact specifications (There's no such thing as take it or leave it, off-the-shelf technology in our opinion)..."

set-top boxes have been sold for free-to-air use (i.e. other than provided heavily discounted, or free, as part of a subscription contract). We suspect that the number may be thousands, rather than tens of thousands.

The number of UK "digital households" given on page 122 includes close to 1 million BSkyB satellite subscribers. If that is relevant, why not include in the US figures the 12 million subscribers to satellite digital services?

Digital receiver sales in the US are reported by the Consumer Electronics Association (CEA) to have reached 80,000 by the end of October 1999 (with 21,000 sales in October alone). The quoted assessment of the FCC's Office of Engineering and Technology about consumer preference for "the cheaper set-top box" is puzzling. CEA figures suggest that only about 10% of digital receiver purchases have been of set-top boxes. As noted earlier, all current US set-top boxes are understood to provide both HDTV and SDTV output.

The Commission may not be aware of some significant uncertainties in the US market that may currently be deterring many consumers from purchasing a digital receiver. As well as the set performance issue noted in the Draft Report, the absence of assured terrestrial/cable interoperability for digital services may be a critical issue for the 70% of households that rely heavily on cable for reception of free-to-air services. This is not a significant problem in the UK, where the terrestrial analog service has been developed in much the same way as in Australia, and most homes have satisfactory off-air reception. As noted above, many US viewers do not yet have local digital free-to-air services, and very few markets have operational services from all four major commercial services. Only two networks currently provide HDTV programming most nights of the week. It should be noted that the US television industry's slow start with digital services cannot be sheeted home to HDTV alone: no stations yet provide digital multichannel services or digital datacasting digital services.

No-one yet knows how digital terrestrial services will develop in the US, and how significant HDTV will prove to be in their growth. What is clear is that satellite subscription services already see HDTV as a viable premium service. This will inevitably place competitive pressure on free-to-air broadcasters who may currently be uncertain how to balance HDTV and other elements in their digital service.

Nor is it clear whether the rapid uptake of digital services in the UK will extend beyond those prepared to subscribe to new services. Some research suggests that up to 60 per cent of households currently have no interest in subscription services. If that proves to be correct, the optimistic estimates of a complete digital conversion between 2006-2010 will clearly be unachievable.

Costs for consumers: The Draft Report's discussion of receiver costs lacks the analytical care and rigour that would be expected in such an important part of the discussion of digital television policy. The Commission draws fundamental conclusions about the price of SDTV and HDTV equipment from retail prices it has been able to ascertain in August 1999. This seems to be representative of what is likely to be available in the UK over the next six months. It is not representative of what will be available in the US over this period, reflecting the much less developed state of the US market in August.

A more fundamental problem with the Commission's analysis is that it accepts the assertion of a number of witnesses that an HDTV set is one that can display all 2.1 million pixels of a 1080i HDTV transmission. Any receiver with a resolution falling somewhere between SDTV and full HDTV presumably falls into some kind of limbo. This is rather like refusing to acknowledge any audio equipment that cannot reproduce the full audio range of a well-mastered CD.

The limited US experience suggests that there will be many sets that can display higher resolution than SDTV, but which fall short of full HDTV. Some of these sets may have the current aspect ratio, rather than being widescreen. This will almost certainly mean that product categories (decoders, SDTV sets, high resolution sets, HDTV sets) overlap significantly in price terms.

The thrust of the Draft Report's discussion of likely penetration of HDTV sets may or may not prove to be accurate over time. It is relevant in a policy sense only if HDTV broadcasting is likely to add significantly to the cost of all digital reception equipment (whether HDTV or SDTV), or if there is an alternative and less costly way of introducing HDTV later.

The Commission clearly believes that all digital receiving equipment will be significantly more expensive if it has to be able to decode HDTV signals. Beyond 2002, this contention is extremely difficult to support. FACTS provided evidence (in our supplementary submission in August) that the price of HDTV-capable and SDTV-only decoder chips, and the memory needed to support them, would equalise by that year. This price evidence was supplied by ST Microelectronics, which is understood to supply 60-70% of all digital decoder chips used worldwide.

We understand that ST Microelectronics will be making its own submissions on the Draft Report, which will include its latest price projections.

Some of the factual points made by the Draft Report in relation to HDTV are questionable or erroneous. The first relates to screen size. The Commission repeats as fact (page 119) Matsushita's claim that screens will need to be at least 90cm diagonal to "enjoy the benefits of HDTV" (page 124). This is rather like saying you need a $5,000 HiFi system to enjoy the benefits of a CD. There is no doubt that HDTV will look better on a very large screen. On the other hand, the benefits of a higher resolution screen may well be apparent at much smaller sizes - particularly if graphics and text are used extensively. That is why computer monitor resolution has been pushed up towards HDTV levels over the past few years, and it suggests that consumers interested in datacasting are likely to want screens with resolution that is significantly better than standard definition in order to view text- and graphics-rich datacasting services comfortably.

The same general comment applies to the Draft Report's claim that "the full benefit of the multichannel audio provided by Dolby AC-3 also requires unusual levels of consumer equipment" (page 125). Makers of DVD players (including Philips) include AC-3 decoding as a standard feature in units which currently sell from $550 (and from US$195 in the United States). A viewer does not need equipment costing more than a fraction of the $3,000 audio systems suggested by the Commission to enjoy greatly improved audio with DVD players or digital receivers providing Dolby AC-3 audio. The Dolby AC-3 capability is for all practical purposes costless to those who choose not to utilise it.

Finally, the Draft Report comments (page 125) that large TV sets do not easily fit into ordinary living rooms "and are not suited to them, since they are best viewed at greater distances than small sets". In fact, a larger HDTV set can be viewed closer up than a smaller analog set. The greater resolution of an HDTV set means that the ideal viewing distance is 2-3 times screen height, rather than 5-6 times screen height. Matsushita's comment (page 123) about US consumers perceiving widescreen sets as smaller than traditional 4:3 aspect ratio sets suggests that consumers will either learn to move closer to the set, or else buy larger digital sets.

Set-top boxes: The Commission should be careful not to draw firm conclusions from the August 1999 figures for decoder prices in the US and UK set out in Table 6.2. There are now HDTV decoders available for US$699, and others announced for under US$500 in the

new year. Several manufacturers have also announced HDTV decoders on PC cards, primarily for datacasting reception. Retail prices of approximately US$200 or less have been suggested for these cards.

As noted earlier, what the Draft Report refers to as "the FACTS estimate" is in fact information provided by the largest manufacturer of digital decoder chips in the world. While the views of the small number of manufacturers who have given evidence to the Commission may indeed diverge from these figures, it should not be assumed that those manufacturers have accurately identified the likely price points for HDTV-capable and SDTV-only digital decoders. In particular, we note that Philips Sound and Vision has more recently been reluctant to commit to a figure below $1000 for an SDTV-only decoder. Sony's projected retail launch price of $999 for an HDTV/SDTV capable digital decoder is not inconsistent with expectations of launch prices of not much more than half that by some other manufacturers, given the substantial price premium that Sony television products normally enjoy.

Possible requirement to "simulcast" SDTV and HDTV: The Commission's brief comments on this issue flow from its assumption that HDTV will necessitate "considerable expense to all" (page 128). As this assumption is not well founded, it should follow that such an intrusive requirement as mandating SDTV at all times would need some other compelling justification. We spelt out some of the consequences of such a requirement in our August submission. As we noted there it would in practice be a permanent requirement, in response to a perceived short-term problem. It would create two classes of digital equipment, which would obviously result in higher prices that would otherwise be the case, and cause unnecessary consumer confusion. By imposing a substantial capacity penalty on broadcasters whenever they chose to transmit HDTV, it would obviously discourage the development of HDTV.

Datacasting: FACTS agrees that the definitions of datacasting and enhanced programming may be complex and may impose more restrictions on datacasters (and broadcasters) than they would like. We do not believe that the answer is to allow datacasters to do whatever they like, in clear contravention of Parliament's decision that datacasting must be something distinct from broadcasting. The kinds of distinctions contemplated by Government will allow wide scope for datacasters to develop new services without becoming de facto commercial broadcasters.

We note BDA's conclusions, from its analysis of research by Roy Morgan Research, that interactive services and multichannelling "possess substantially more consumer appeal than high definition television, especially among those types of media users who watch the most television, the 'heavy users and 'filling time' groups" (page 131). FACTS has commissioned extensive consumer research that suggests that many viewers will be hesitant to adopt interactive services. (A copy of a detailed summary of that research is attached.) While multichannelling may be of considerable appeal to consumers in the medium term, it is unlikely to offer commercial opportunities to free-to-air broadcasters until there are substantial numbers of digital viewers. We believe that a combination of HDTV, standard definition (utilising program enhancements) and datacasting is likely to provide the best short-term commercial strategy. We see HDTV as an essential element in marketing digital television, even if the cost of HDTV receivers means that relatively few of them are sold in the first year or two. We remain convinced that it will be an essential longer-term element in driving the conversion to digital.

Market mechanisms for clearing spectrum: In relation to the discussion on pages 135-136 of the Draft Report, FACTS notes that the US has sought to create, in a simpler way than the Commission suggests, a similar "new class of actors with an economic interest in the efficient use of the spectrum, and therefore in the conclusion of simulcasting" (page 136).

It has done so by mandating the sale of the analog spectrum four years before the expected end of the simulcast period. The same approach is presumably open to the Australian Government.

4. Regulatory restrictions on entry into broadcasting

FACTS and some other submittors pointed out to the Commission that the long-standing restrictions on entry to the commercial television industry were primarily intended by Government to underpin high levels of local programming and the provision of a universal broadcasting service. Government has concluded – as recently as 1997 - that if more services shared the available revenue (which is correctly assumed to be relatively inelastic in multiple station markets), levels of local programming and of universal service would suffer.

The Draft Report focuses on a relatively small component of the service that these entry restrictions are intended to support, namely Australian drama, documentaries and children's programs. It may be inferred that the Commission considers that other kinds of local programming will continue to be produced in changed competitive circumstances, or that their presence or absence is not a matter for policy concern.

Universal television service is not discussed to any extent, and indeed the Commission suggests that broadcasters should be free to decide the quality of the service they offer (which would presumably include decisions as to how much of their licensed market they need to provide a useable signal to). The Commission may not appreciate how deeply ingrained among the public and their political representatives is the expectation of universal broadcasting service. This expectation has, if anything, strengthened as banks, retailers and the providers of many other services have become more selective in where they provide them.

The current quota requirements reflect a view that, without quota support, certain kinds of programs would not be produced, or would not be produced in quantities that the regulator considers desirable. The focus of quotas has varied somewhat over past decades, as perceptions of program types under threat or under-represented have changed. It should not be assumed that because local drama, documentaries and children's programs are the only program types specified in the current Australian Content Standard, they are the only categories of potential policy concern. Local news is an obvious example of expensive programming that is vulnerable to significant shifts in economic circumstances.

Restrictions on entry to the commercial television industry may well be seen as a less direct way of supporting local programming and universal service than is desirable. However, the alternative is to take the chance that very different competitive conditions will provide results that satisfy consumers, or else to provide direct subsidies to broadcasters for wanted program categories and levels of service. The prompt response of major parties to the Draft Report's recommendations in this area suggest that they do not see these policy alternatives as practicable, at least in the medium term.

On the issues of market power raised in the Draft Report (pages 149-150), the Commission should be aware that in neither the program production industry nor the advertising industry do small companies predominate. Several large international production companies dominate the production industry. Several large buying groups dominate the advertising industry, and account for the vast majority of advertising placement in main media. We do not believe that commercial broadcasters have undue market power in either of these markets.

5. Content regulation, consumers and competition

FACTS' submissions to this Inquiry suggested that the quota requirements in the Australian Content Standard reflected the program types considered to be at risk, or to be under-represented, in existing economic and competitive circumstances. Were these economic and competitive circumstances to change significantly, a wider range of programs could be at risk.

The Draft Report implicitly assumes that other program types will either survive in significantly changed circumstances, or are not of such cultural or other significance to require policy attention. As we have tried to make clear, more direct competition will mean less revenue for existing television networks, which in turn will mean significant changes in the local programs that networks commission or purchase.

It is ultimately a decision for the Government and the community whether, or when, they are prepared to embark on a course that will have this effect. It follows that if Government were disposed to introduce new commercial television services, it would need to reassess current support measures for local programming.

Current quota levels are based on an assumed capacity of commercial television services to support these quotas. Were circumstances to change significantly, this capacity to pay could not be assumed. The result might well be that compliance with quota requirement was at the expense of other local programs, and/or of higher cost programs within the quota categories. New licences would presumably face phased-in quota requirements, and could be expected to argue that they should not meet quotas designed for a different economic environment.

We are not suggesting that this would mean the end of Australian programs on commercial television. Rather, we argue that it would require the Government and the community to reassess what it expects from commercial television by way of local programming, and how it is prepared to supplement what the market and economically-supportable quotas can provide.

We note that the Commission has flagged a number of issues relating to future policy support for categories of Australian programming considered to be important to the community on cultural or other grounds. As we indicated briefly in an earlier submission, we believe that traditional quotas will prove to be of rapidly reducing efficacy and value to the community as the number of television-like services grows in coming years. We believe that a new approach will be needed. We consider that Government should give serious thought to alternative support measures that include:

- tax deductibility provisions of the kind suggested by the Draft Report on page 231.

- a production fund drawn from a modest levy on subscriber revenues for subscription broadcasting services, and on datacasting services (if they are permitted to provide television-like services). Government already collects some $200 million in television licence fees each year, and might well consider diverting some of this rapidly growing sum to such a fund.

- more targetted Government funding.

The short inquiry by David Gonski in 1997 was the closest to a general inquiry into film and television production and funding. The terms of reference and timeframe of that inquiry did not allow it to deal with long-term funding issues in a considered way. An inquiry of this kind,

able to look at all free-to-air and subscription television services, and prospective "convergent" services, is overdue.

FACTS has the following comments on specific issues raised in the Draft Report:

Creative elements test: FACTS agrees that the current tests require more Australian inputs than are necessary to ensure an Australian perspective or identity in the program in question.

Children's quota: FACTS stands by its comments in earlier submissions on the quotas for children's programs. We believe that the quotas necessarily produce programming in which most children are not particularly interested, and do not watch. The Commission might note that the $45,000 minimum licence fee per half hour applies to Australian children's drama only, not to all "C" programs (page 213). The Commission is mistaken in concluding that commercial television stations need Australian "C" programs because insufficient foreign "C" programs are available (page 231-2). FACTS agrees that the "P" quota should include provision for some foreign programs.

Subsidies versus quotas: FACTS believes that subsidies will play an increasingly important role in supporting local programs. Government has been reluctant to contemplate imposing quotas on subscription services. These and other broadcasting-like services will grow in importance over the next decade, and bring into more serious question the equity of imposing quotas on some broadcasters but not others. Any new commercial television broadcasters will undoubtedly argue that quotas designed for the current operating environment are inappropriate for a deregulated environment, and that any quota to which they are liable should in any case be phased in over a number of years. Direct funding – whether by Governments or some form of industry fund – and tax deductibility arrangements will necessarily play a much more significant role in those changed circumstances.

Effects of quotas on program quality: The Draft Report queries FACTS' argument that current quotas impede program diversity, and can result in lower program quality (pages 222-223). It makes the point that: "ultimately, the broadcasters, responding to their own market, decide how to fill their quota time..." (page 223). While this is certainly so in principle, it is not necessarily the case in practice. The size of the quota requirements for drama encourages broadcasters to develop long-running serials, rather than to rely on short series and one-off drama. Where a serial fails to attract sufficient viewer interest, or loses viewer support, the need to meet the quota may oblige a broadcaster to keep the serial on air, or to rush a replacement to air before it has been adequately developed. The result will be a misallocation of resources and sub-optimal programming.

Quota trading: FACTS agrees that the ability to "trade" quota requirements could be of some assistance to broadcasters.

Effects of HDTV requirement on Australian programs: FACTS does not believe that an HDTV requirement would affect broadcasters' programming decisions in the short-to medium-term. When most viewing is of the digital service, non-HDTV program material is likely to be at a disadvantage in those viewing periods where mostly HDTV programming is transmitted.

Advertising quota: The Australian quota requirements for advertising do not affect advertisers' decisions, as far as we are aware, and do not affect broadcasters' commercial scheduling decisions. The level of "foreign" advertising broadcast has grown somewhat over the past 7 years, but is still well below the 20 per cent permitted. The quota is, in effect, an unused safety net.

Consumer access to sports programs: ASTRA's comments on the exercise of rights by free-to-air broadcasters (page 233) are misleading, in that they imply that the unused material is not made available to subscription broadcasters. Wimbledon is a good example of what happens in practice: the free-to-air broadcaster is required by the rights owner to nominate the matches it wishes to cover, and to make others available to the subscription broadcaster. There are similar arrangements in relation to football. We suggest that the Commission invite ASTRA to identify events which have been "hoarded" by broadcasters (in the sense of significant amounts of material unusable by the broadcaster not being made available to subscription services).

We also suggest that the Commission invite ASTRA to document claims of "apparent delays for subscription broadcasters seeking to have an event 'delisted'" (page 234).

For the reasons set out in our earlier submissions, FACTS strongly believes that many of the consumer benefits of the current provisions would be lost by the possible changes floated by the Commission on page 234.

6. Codes of Practice and Compliance (Chapter 10)

FACTS has strongly supported industry self-regulation since the *Broadcasting Services Act* made it a practical and preferred alternative to detailed regulation of a regulatory body. The commercial television industry led the development and introduction of a code of practice. This code of practice is more detailed and comprehensive than other broadcasting industry codes of practice (including those of the ABC and SBS). In developing the Code in 1992-3, and revising it in 1996-9, FACTS sought public input on successive drafts, and consulted widely with interest groups and Government agencies.

The final form of the Code also reflected detailed discussion with the Australian Broadcasting Authority. As the Draft Report notes, the legislative framework and the practical reality are that the system is one of co-regulation rather than unfettered self-regulation.

FACTS has the following comments on the Draft Report's recommendations:

Consultation: FACTS does not accept that its consultation with viewers is inadequate. FACTS advertises code of practice reviews prominently in the press in every state and territory. As noted earlier, we release successive drafts of the code of practice for public comment, and make staff available to consult with interested interest groups and agencies. It has become practice for the Senate Committee on Information Technology to take a close interest in the commercial television industry code of practice, and to call industry representatives before it to testify on proposed amendments to the Code. We consider the Code review process to be detailed and transparent. It should be added that the timing of public consultation concerning the latest review (which Young Media Australia complains of on page 250) was directed by the ABA.

FACTS would have no objection to minimum periods for consultation. At the moment, the length of the consultation period is agreed with the ABA.

The Commission does not explain what it means by recommending that public hearings be a mandatory part of public consultation. We do not see how public hearings would add to the adequacy and transparency of the process.

FACTS members provide what amounts to daily on-air information about the code of practice. We have taken the view (and the ABA has concurred) that prominent press

advertising is an appropriate way of drawing the public's attention to reviews of the code of practice.

Complaints: The requirement to broadcast on-air spots about the code of practice obliges stations to schedule these "across all viewing zones" (Clause 7.5.1). It is not clear what the Draft Report means by recommending that they be broadcast "at peak or other viewing times to increase viewer awareness" (page 255). FACTS has also set up a "hotline" which provides more detailed information about the code of practice and of complaints procedures. The number of this "hotline" is included in most on-air spots.

Several stations have experimented with voicemail systems for oral complaints. Their experience has been that most callers will not leave contact details, and that many anonymous callers are highly abusive. FACTS does not believe that a voicemail system would add anything to the range of alternatives currently available to viewers.

As regards the recommendation (on pages 258-9) that stations be required to make on-air announcements concerning any breaches, FACTS believes that this would damage the operation of the code of practice by discouraging stations from acknowledging a breach of the Code. Most breaches are "self-found". The "name and shame" approach the Commission favours would encourage stations to deny a breach, and take their chances on the complainant not pursuing the matter to the ABA.

As regards sanctions, we do not accept the Commission's assessment that "the ABA does not have... a credible threat for single breaches of the codes, and licensees may breach the codes with apparent impunity" (page 260). Commercial television stations do not treat Code requirements lightly. Breaches of the Code are uncommon – on average, less than 70 a year, from about 1000 written complaints and 2.7 million hours of television. Repeated breaches of a broadly similar kind are even less common – so much so that the ABA has threatened management reporting requirements and a possible condition on licence in an instance where several relatively minor complaints about one station's news service were upheld over a four year period.

If accepted, the Commission's recommendations on pages 260-1 would change irrevocably the nature of the co-regulatory system. If stations faced the severe penalties the Commission proposes, they would not continue to support a wide-ranging, broadly expressed code of practice of the kind the industry now has. They would insist on a narrow, legally-drafted Code – a "black letter" document. We would, in short, be back to the situation that existed before the *Broadcasting Services Act*. This would not be in the interests of viewers or the industry.

Complaints about fair and accurate coverage: The Commission's recommendations are consistent with its favouring of regulation over co-regulation apparent in this section of the Draft Report. FACTS does not accept that its members have unreasonably refused to broadcast on-air corrections of clear errors of fact. We cannot accept the Commission's analysis or its recommendations.

ATTACHMENT

Pace Micro Technology plc advertisement in Multichannel News International, November 1999

WIRTHLIN WORLDWIDE AUSTRALASIA

DIGITAL TELEVISION STUDY
WAVE 2

PREPARED FOR FACTS

SEPTEMBER 28, 1999

#4159

WIRTHLIN WORLDWIDE AUSTRALASIA PTY. LTD. ACN 074 075 489
PO Box 176 Deakin West ACT 2600 / Unit 3, 16 Bentham Street Yarralumla ACT 2600 Australia
Telephone +61 2 6260 4999 Fax +61 2 6260 4991

CAUTION

Wirthlin Worldwide Australasia is pleased to present the topline results of this study to FACTS. This report combines the findings of both qualitative and quantitative market research.

QUALITATIVE

Qualitative research is primarily designed to construct hypotheses and to discover and explore creative leads. The focus of Qualitative research is on *how* people think, as well as *what* they think. It is designed to provide a *window* into the thoughts of *most people, most of the time.* This research was not designed however to quantitatively "define" the marketplace.

QUANTITATIVE

Although the most sophisticated procedures have been used to collect and analyse the information presented here, it must be remembered that surveys are not predictions. They are designed to measure public opinion within identifiable statistical limits of accuracy at specific points in time. This survey is in no way a prediction of opinion or action at any future point in time. Indeed, we believe FACTS could potentially have a strong capacity to influence opinions on this currently non-salient issue.

It should also be noted that we have approached the issues of digital television and datacasting from a broader public-affairs perspective, rather than a purely commercial one. In seeking to establish soft voter's expectations desires of government on this issue and subsequent reaction to FACTS' position, we have naturally gauged levels of interest in both HDTV and datacasting. However these results should not be interpreted as predictions as to the future consumption patterns of Australians when these technological advances become a reality.

METHODOLOGY

Four focus groups were held in Gosford (2) and Brisbane (2) on Saturday 4 September and Monday 6 September 1999. Each focus group contained between 8 and 10 Australians who filled the following recruitment criteria:

- ½ of participants aged 18-34 and ½ aged 35-54;
- Participants did not belong to any group actively trying to influence government;
- Participants do not, have not, nor have any family member belonging to a profession which might give them an unusual insight into social issues in Australia (marketing, PR, advertising, media, politics, teaching, financial services etc);
- All participants watch a minimum of 10 hours of television per week;
- Participants were persuadable voters (not members or strong supporters of any political party and had not ruled out voting for either major party at the next federal election).

The focus groups phase of this research was followed up by a quantitative survey of 801 television-owning, adult Australians stratified and weighted according to state, age and gender (according to ABS statistics).

The maximum margin for error on a sample of 801 is ±3.5% in 95 out of 100 cases. Any variation in reported percentages of +/- 1% is due to rounding.

The focus groups were moderated by Simon Berger, Senior Project Director and this report was written by Mark Textor, Managing Director and Simon Berger, Senior Project Director. Any questions related to the attached findings should be addressed to Mark or Simon at (02) 6260-4990.

EXECUTIVE SUMMARY

- Middle Australia express mild to strong levels of excitement about the prospect of HDTV. Fully 60% have confirmed that they are interested in the technology. In particular they look forward to:

  - Sport. (It will be "just like being there");
  - Movies. (Cinema quality picture and surround sound makes "all the difference" to high budget movies like the Titanic);
  - Wildlife / documentaries. (Will make nature specials "even more spectacular" and "quite moving");
  - Music / music videos / concerts: (current TV picture / sound does not "do them justice".

- Given a choice between HDTV and datacasting, 62% of Australians would prefer HDTV (39% strongly prefer, 23% somewhat prefer), while just 24% would prefer datacasting (13% strongly prefer, 10% somewhat prefer).

- There are several reasons why participants displayed a preference for HDTV to datacasting:

  1. While television is a trusted friend, datacasting is not. While HDTV is seen as an improvement on something we already have, use and like, participant's reaction to datacasting is that it is "just another (new) thing".

  2. Furthermore, while HDTV is seen as an improvement on something that alleviates stress, many see datacasting as something that could lead to (even) more stress!

  3. Moreover, it is thought that HDTV will be something that is easy to use. Datacasting by contrast is seen as something more complex and therefore stressful. While only 14% describe datacasting as simple and easy to use, 67% think HDTV will be.

  4. While neither medium is seen as entirely wholesome, it is thought that television has a legitimate role in society. By contrast, people do not understand the role of datacasting and express concern that it will make us potentially removed from real society as everything will be able to be done via a TV screen (and thus potentially further erode Australia's sense of community).

  5. TV is something that people can share. Datacasting by contrast is seen as a much more individualistic / isolated and even lonely activity and

therefore not conducive to "togetherness" within families, communities or Australia as a whole.

6. Participants are in no doubt that the internet will continue to improve and offer limitless benefits and opportunities (as well as risk) and so can not identify any benefits of datacasting over and above those offered by the internet.

- If it is the case that heavy use of the digital spectrum interferes with the current analogue signals and that a trade off is necessary, it is the almost unanimous wish of group participants that datacasting be the first sacrifice. Fully 62% of Australians indicate a preference for HDTV over datacasting.

- In light of the fact that television broadcasters would be required to make a considerable investment and continue to conform to the current broadcast guidelines, participants think it both fair and desirable that the transition to HDTV be allowed to commence unhindered.

- While not understanding the full technicalities of the restrictions FACTS propose for datacasters, participants accept the logic that if datacasters are allowed too much latitude, that they will be at an unfair competitive advantage to broadcasters and thus the transition to HDTV might be threatened. Given that their preference is strongly in favour of HDTV over datacasting, they are more likely to agree with the arguments of the broadcasters and support arrangements that will ensure the success of the transition to HDTV.

- Fully 62% agree that it would be unfair to allow datacasting to have the look and feel of television so that it can compete directly with TV without having to make the same commitments to Australians as television broadcasters.

- The immediate and obvious benefit of requiring television stations to broadcast in both standard and high definition is that they have more choice (so they can choose the "Holden" or the "Mercedes" options). This initial attraction to more choice however is very easily removed by the FACTS' suggestion that this would create two "systems". Participants display a definite propensity to be persuaded to the FACTS' position by the argument that:

  - Two systems will be too "messy";

  - If TV networks are spending $1 billion on the transition to digital, that it is important that the transition works;

- The more people who go for HDTV sets, the quicker the price of these sets will come down.

- Participants still have nightmares about the "VHS versus Beta shambles" of the 1980's and express a strong desire to have a *smooth* transition to digital. To make a smooth transition, a majority (54%) believe that we're better off to pick one system and bring everyone onto that system" rather than "stuffing around with half arsed options".

- The argument to encouraging the widespread take-up of HDTV sets and receivers is also bolstered by:

  - A belief that to some extent, people "need protecting from themselves". As with the case with Beta video buyers, it is thought that those who stick with standard definition receivers would soon lament that they were stuck with the "half arsed option";

  - It is thought that HDTV would be the medium that is more likely to appeal to a mass audience. It is thought that the people who are most likely to embrace datacasting were in turn NOT likely to be those unable to afford an HDTV set / receiver (and so the "affordability" argument is somewhat flawed).

  - Participants are amazed at how quickly the cost of new technology comes down, as evidenced by the crash in the $ price of VCRs computers and mobile phones (to the point where they now literally give them away). They have little current doubts that the same will occur with HDTV. 85% of Australians agree (52% strongly agree) that "as more and more people catch on to high definition television it is inevitable that the price of high definition TV sets will fall, just like the price of computers, VCRs and mobile phones have all come down".

DETAILED FINDINGS

TELEVISION

Our four focus groups once again brought together a surprisingly wide cross section of Australians! The characteristic thing they did have in common was that they were dedicated watchers of television. While most agreed that you shouldn't watch *too much* and some lamented that they or their families were a little too reliant on television as a form of entertainment, there was unanimous agreement that television plays some constructive and important roles.

PRACTICAL BENEFITS

Australians nominate a number of practical benefits of television. First among these is that it's a means of "keeping up to date" with what is going on in the world around them:

> *"TV is how you keep up to date with current events. It's like your window on the world."*

> *"I watch the news for the information because I don't have time to read the newspaper any more."*

Our audience appreciates the fact that unlike other forms of communication such as the internet, television comes to you. That is, you do not have to go out and seek information and entertainment, you can sit back and watch while it comes to you:

> *"You don't have to rely on getting it with a keyboard or a mouse. It comes through to you. It's just there and you don't have to do anything. Whereas with the internet you can't do that. You have to read it and access it."*

> *"After a day at work, and you come home and cook an evening meal, it's just good to sit down for relaxation, otherwise what would you do? It's just good, you don't have to think about it."*

> *"You go to the Internet looking for something where as the TV you know what it is and you go straight to it."*

> *"In your own home, you don't have to get dressed up to go anywhere, it doesn't matter if it's raining."*

The utility of television is enhanced by the fact that it does not have to command your full attention. Participants observed you can still do things such as cook the dinner, do housework, talk with your family, read and knit while the television is on as television enabled you to "tune in" and "tune out" as you please:

> *"It's a good way to keep up. You can do other things while it's on. It just comes to you."*

> *"It doesn't require your full attention. You can just have it on in the background and then tune in when something interests you."*

While parents are careful to prevent their kids from watching too much TV, they continue to describe it as a good "babysitter". It is capable of holding the attention of children while their parents get other things done. Parents are also reassured by the fact that there appear to be rules in place to ensure that the content is suitably classified and "censored". This gives them peace of mind to get on and do other things.

> *"The kids sit down and watch the TV while you can get on and do other stuff."*

> *"You can sought of work your house work around Sesame Street or Play School and say well while this is on I'm going to do this."*

PSYCHOLOGICAL BENEFITS

Our focus group discussions revealed that as well as fulfilling some important "functions", television has a positive psychological affect on Australians:

First and foremost, Australians see television as something that enables them to relax, particularly after a hard day at work:

> *"After a day of thinking and dealing and coping you don't have to think, you can just sit and receive."*

> *"Most people who have access to a computer don't particularly want to come home and get onto the Internet. You really want to just switch off and that's what television allows you to do."*

By giving people a "break", it is thought that television is comparatively healthy form of escapism. It is thought that if you're under stress that there is always plenty of light entertainment that can help you unwind and "take your mind off your troubles":

"You can just sit there. You don't have to think. You can take your mind off things you're worried about."

"Instead of thinking of problems festering inside you, it just puts them to the back of your mind, it's a way out."

"It gives you a bit of escapism. Like you can come home from work and there will be a good comedy on or something and it just takes your mind off your problems."

It is thought that by bringing real life personalities into people's lounge rooms that television delivers "companionship" to people who are alone:

"If you're on your own during the day I think its good company."

"The people that you're seeing on TV all the time, you actually get quite familiar with those personalities. So regardless of whether they're real characters or not you get quite familiar with them so they become companions."

Television is now considered to be a part of life. Like a fridge and a washing machine, it is seen as a constant and universal feature in (almost) every Australian home. In a changing world, television is one piece of technology that participants feel very comfortable with:

"It's a culture thing. It's something we've all grown up with. It's just a part of your life."

"It's something you just have in every household. You've got a washing machine, a fridge and a TV."

BENEFITS FOR THE COMMUNITY / AUSTRALIA

Putting on their "altruistic" hat, our audience also believes that television has some very real positive impacts in promoting community and national spirit and, in a way, unifying people.

Unlike other forms of information or entertainment such as reading or the internet, it is thought that TV can bring people directly together (as opposed to "remotely" bring people together on the internet). While reading and the internet are considered private activities, participants note that people can sit down and watch television together, with their families or friends and still interact with each other "face to face" and "in person".

"You can bring your mates around and watch sport and still enjoy their company".

"You can lose track of reality with the internet. There's very much a falseness with the internet. You could be talking with your neighbour and have no idea that you're doing it."

- It is thought by many that television is important for Australian culture as it provides a medium for our great personalities and entertainers. Our audience notes that a whole industry revolves around it as do countless Australian jobs.

  "That's where Paul Hogan and Mel Gibson got their start."

  "It provides jobs for Australia."

- TV fosters our love of sport (which is seen as an entirely wholesome). Through bringing us coverage of top sporting events, it builds national pride in our heroes and inspires us. For example many participants commented on how "wonderful" the recent Pan Pacific Swimming Championships were to watch and how everyone could talk about and take pride the feats of our world beating athletes. By so doing television is thought to build a sense of community whereas the internet breaks that into individualism.

  "It's part of our culture. We try and live a healthy and balanced lifestyle. Appreciating sport is part of that."

  "It's tradition. We watch sport on TV. It's something we've done since school."

  "Didn't you watch that Pan Pacific swimming! It was fantastic. Our whole family watched it every night and at work, that was all we could talk about. I think it was a really great thing for Australia."

- TV is thought to keep people on the same wavelength and brings people together. After seeing the same news reports the night before, people can share opinions and generate debate on current issues.

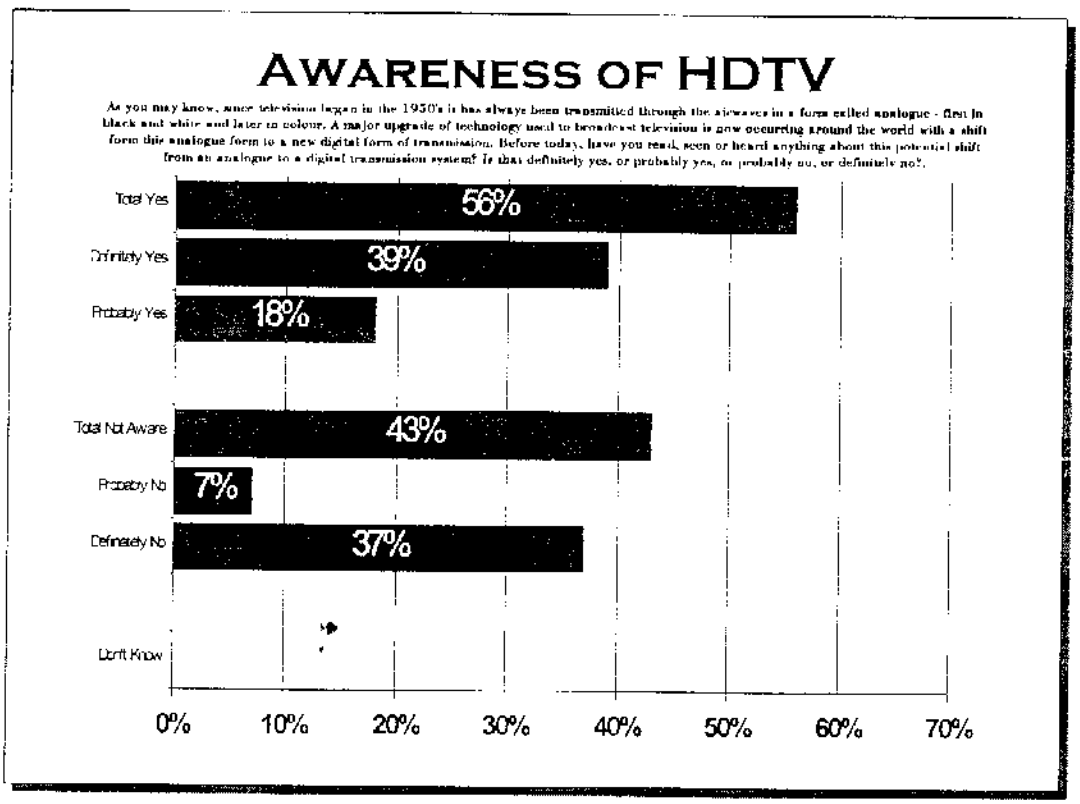
  "Kids at school (high school), they watch certain programs and they can talk about them at school, if you had them on pay TV they wouldn't necessarily watch them all at the same time."

"You can get a different point of view. If it's a social issue or something and it comes up on TV, then you'll talk about it with other people and debate it yourselves. Maybe even change your own opinion."

"When you go to work you don't hear people talking about what they watched on the Internet last night."

THE SWITCH TO DIGITAL

There is a reasonably wide, yet vague knowledge about the impending switch to digital TV. A slight majority of survey respondents (56%) claim to have recently "seen, read or heard" *something* about the switch to digital:



The most common perceptions that are currently held toward digital TV are that:

- digital TV would deliver "superior picture quality and sound";

  "You'll get twice as many particles what ever it is, transmitted from the station into your TV set. So you'll have a higher resolution picture because you've got more parts of the picture if you like, as opposed to what we have now."

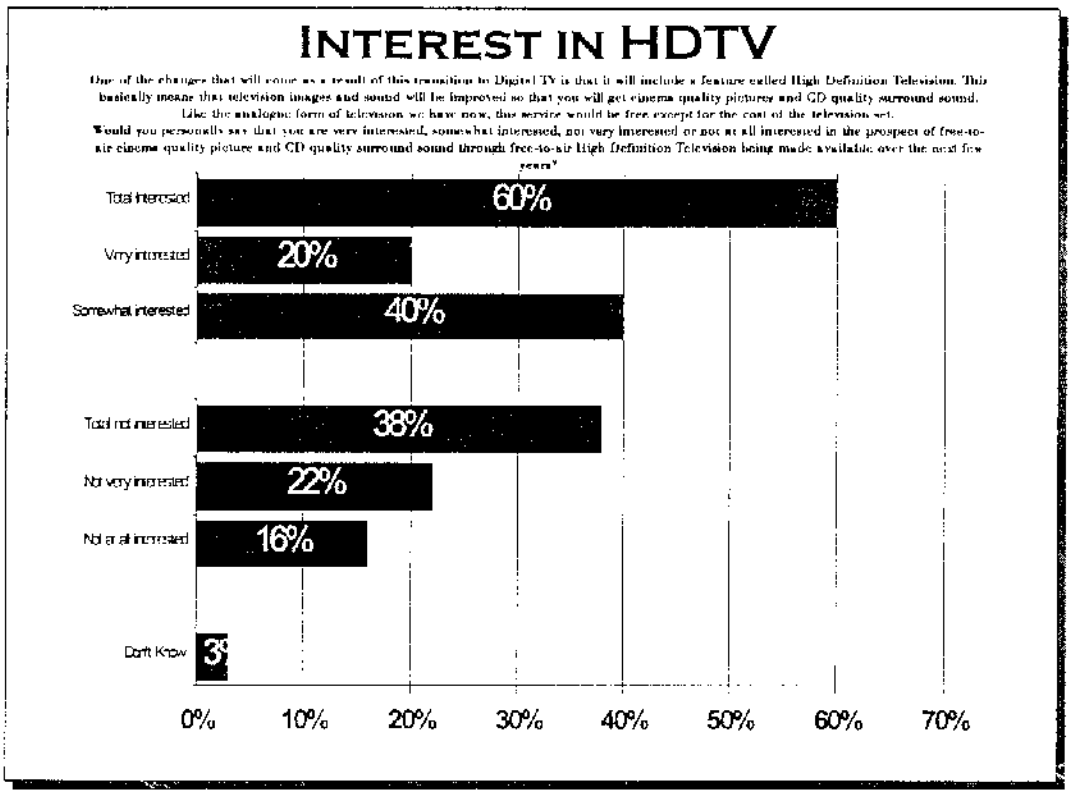
- A perception held by a small number of group participants, based on newspaper reports, that the new system would be "expensive".

"$10,000 to $15,000 it was in the paper the other day, for a television."

"The TVs in 2001 will be really, really expensive (digital TVs), they will probably come down in price by the time it's 2008 and they will probably be as cheap as chips I would reckon."

HIGH DEFINITION TELEVISION (HDTV)

When given a brief explanation of HDTV (as basically meaning that "television images and sound will be improved so that you will get cinema quality pictures and CD quality surround sound"), fully 60% of survey respondents confirmed that they would be interested either very interested (20%) or somewhat interested (40%) in the prospect of high definition television:



The appeal of HDTV was based largely on the understanding that it would essentially be like the television that we all know and love, only with superior picture and sound:

"It will be better on the eye and ear. It's a listening and looking product, so if they can get those two better, then that would be great."

"If you've got a TV that's got a really bad picture, then it's not worth watching. The picture definitely makes a difference. This looks like it will be really good."

In contemplating HDTV, participants particularly look forward to:

- Sport. It is thought that by applying cinema quality picture and CD quality surround sound to sport coverage that HDTV will make sport on TV "just like being there".

  "With sports, I like the sound. Like the sound of the golf ball being hit."

  "You'd get the perception that you're actually live there at the event."

- Movies. It is thought that the cinema quality picture and surround sound makes a big difference to big budget movies (like the Titanic for example) and that watching them on TV / video is "just not the same". Participants eagerly anticipate being able to have the same cinema experience in their own homes.

  "There are some movies that you just have to see in the movies with that big screen and the surround sound. If you watch them at home on video, it's just not the same. Like what was that four-hour movie that everyone just had to go and watch (the Titanic). You couldn't watch that at home. But at the movies it was quite spectacular."

  "Even with the all round sound system it makes it more realistic when you are watching TV, especially movies. An upgrade of the picture and better sound systems would make it much more exciting."

- Wildlife / documentaries. It is thought HDTV's cinema quality will make nature specials "even more spectacular" and "quite moving", not to mention more life like and realistic.

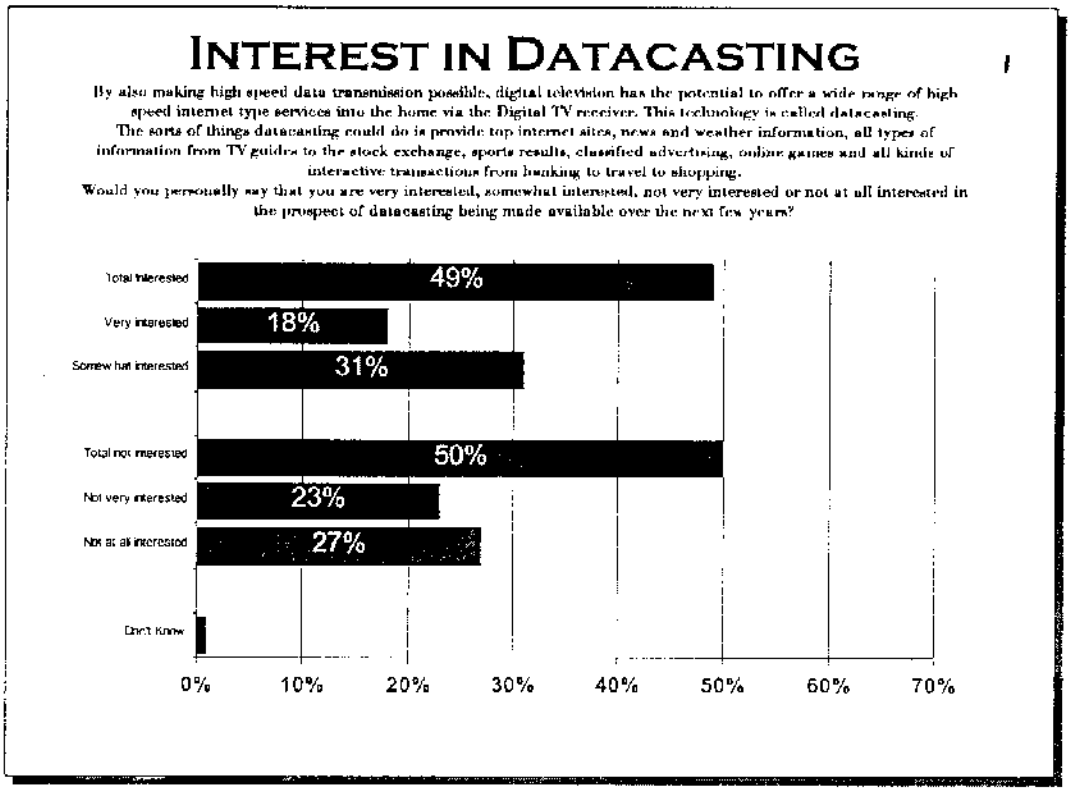
  "It would be like going to the movies but you could stay at home. And I think if you had something like a wildlife documentary and you could see really top pictures and get all the little sounds, then that would just be fantastic. It would be a really emotional experience."

- Music / music videos / concerts: In a medium that would "do them justice".

  "What about music video's and concerts and things. They're not that great on TV, but if the sound was much better, that would be good."

DATACASTING

Given a description of datacasting, slightly less than half (49%) our survey respondents claimed that they would be interested in datacasting, compared to 50% who claim that they would not be interested:



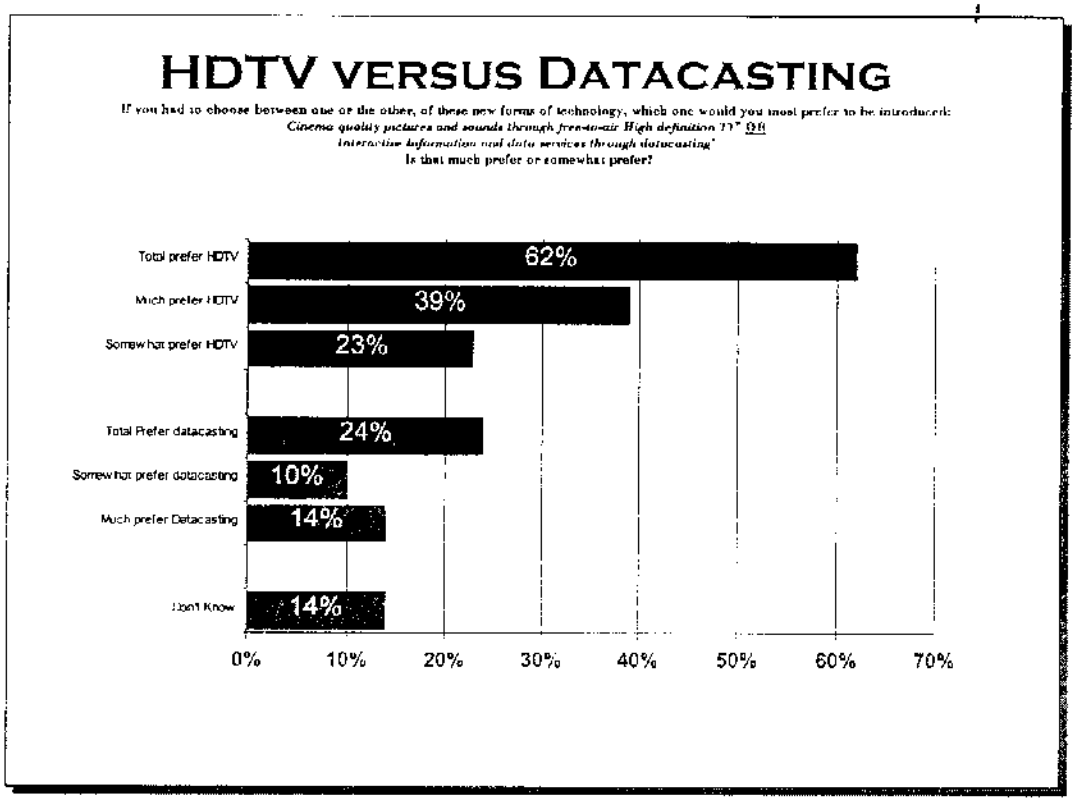
Despite being renowned for embracing "gadgets" and new forms of technology, Australians are tending to view a number of technologies with caution and in some cases a form of mild fear. In recent years people have witnessed technology advance with immense speed and cause some fundamental changes on the society they live in. It is thought that some of these changes have not always been for the better. Specifically older participants wonder "where it will stop":

> *"What happened to the good old days when you used to actually go out to the bank. I mean we're slowly but surely isolating ourselves. My TV is for entertainment. But the banking or whatever. You get to the stage where you have information overload. It gets to the point where you don't care. I can set a clock radio surely and work a VCR, that's enough for me. But my TV's for entertainment. If you can get better picture, well great. But I don't want my life to revolve around a little box."*

> *"I think the idea of doing your banking through the TV is a bit scary."*

DATACASTING VERSUS HDTV

Given a choice between HDTV and datacasting, fully 62% of Australians indicate a preference for HDTV (39% much prefer HDTV, 23% somewhat prefer HDTV). Just 24% indicate a preference for datacasting (10% somewhat prefer datacasting, 13% much prefer datacasting):



There are several reasons why participants displayed a preference for HDTV to datacasting:

1. While television is a trusted friend, datacasting is not. While HDTV is seen as an improvement on something we already have, use and like, participant's top of mind reaction to datacasting is that it is "just another (new) thing":

   "It's just another thing. How much choice do we really need? It's just another new thing that we don't really need. I mean if you look at what we need, we need to eat, we need to work, we need to relax. Where will technology stop? Soon we'll all be talking to each other through our TVs. I don't know much about it, but I don't think you could say this is something we need."

2. While neither medium is seen as entirely wholesome, it is thought that television has a legitimate role in society (in informing and entertaining us,

in allowing us to relax and escape and in facilitating the growth of Australian culture and engendering some national pride). By contrast, people do not understand the role of datacasting and express concern that it will make us potentially removed from "real" society as everything will be able to be done via a TV screen (and thus potentially further erode Australia's sense of community).

"If you can do everything through the TV rather than actually going out and buying things over the counter, then that will cost jobs. And we're going to be spending our entire lives inside."

"I think people are lazy enough today as it is without having that as well. I like going out and speaking to people in shops."

3. TV is something that people can share. You can sit in front of TV with your family or your mates and you can still interact. You can talk to people the next day about something you all saw on TV the night before. Datacasting by contrast is seen as a much more individualistic / isolated and even lonely activity and therefore not conducive to "togetherness" within families, communities or Australia as a whole.

"I need sport on TV. I don't need datacasting. I can do without interactive stuff, but me and my kids can't do without the next test match."

"A group of you can sit there and watch the TV together. You can sit there and have a laugh and all watch the football or whatever. Yeah I s'pose you can have two or three people around the screen for datacasting, but basically it seems like a bit of a private thing."

4. Television is something you want to relax in front of. Participants do not associate interactivity (clicking buttons / searching for material / reading text) with relaxation. While HDTV is seen as an improvement on something that alleviates stress, many see datacasting as something that could lead to (even) more stress!

"You don't interact with the TV. An increase with viewing pleasure would be better than interacting with the TV. I don't know how you'd do it, with a remote control or a screen touch, but I don't know if I'm into that."

5. It is thought that HDTV will be something that is easy to use (like the TV you have now, only better). Datacasting by contrast is seen as something inherently more complex and therefore stressful.

"Datacasting takes away from the relaxation."

"I don't use that sort of thing for entertainment, to me it's just work, it's hunting down something that I want, whether it looks pretty or not, its not going to make a difference to me one way or another. But TV I use for entertainment and the higher quality the entertainment the happier I'll be."

Quantitatively, on most measures, TV viewers prefer the idea of HDTV to datacasting. In particular, HDTV is more associated with the following descriptions:

- "Will be a good source of relaxation" *(by a margin of 82% for HDTV to 7% for datacasting, with 11% unsure);*
- "Will provide the most enjoyable entertainment experience" *(73% to 13%);*
- "Will be uncomplicated and simple to use" *(67% to 14%);*
- "Will be most likely to appeal to mainstream Australia" *(56% to 27%);*
- "Will be a healthy form of escapism" *(53% to 19%);*
- "Will be a relatively wholesome form of entertainment and information" *(42% to 38%).*

Furthermore, HDTV fared better when comparing the two mediums on the basis of which would be unlikely to have "undesirable effects". While just 19% of participants associated HDTV more strongly with the description "could have undesirable effects on society", fully 43% associate datacasting with this fear.

While HDTV was clearly the preferred medium, datacasting does have some perceptual "equities". Our survey audience tends to think datacasting may have an advantage in generating *information* and as such be an effective means of "keeping up to date" and an effective learning tool. Datacasting is more closely associated with the following descriptions:

- "Will be a good learning tool" *(is more strongly associated with datacasting than HDTV by a margin of 75% to 11%);*
- "Will be a good way for people to 'keep up to date' with what is going on in the world around them" *(70% datacasting, 20% HDTV);*

- "Will make life easier for Australians" *(53% datacasting, 14% HDTV);*

Perceptually however, there is already an interactive communication / information tool, namely the internet. Participants are in no doubt that the internet will continue to improve and offer limitless benefits and opportunities (as well as risk) and so struggle to identify any benefits of datacasting over and above those offered by the internet.

> *"I'd go straight to HDTV because it would give you an improvement straight away to the same TV which I like now. A lot of that datacasting stuff you can do on the internet, or if you can't I'm sure you'll be able to soon."*

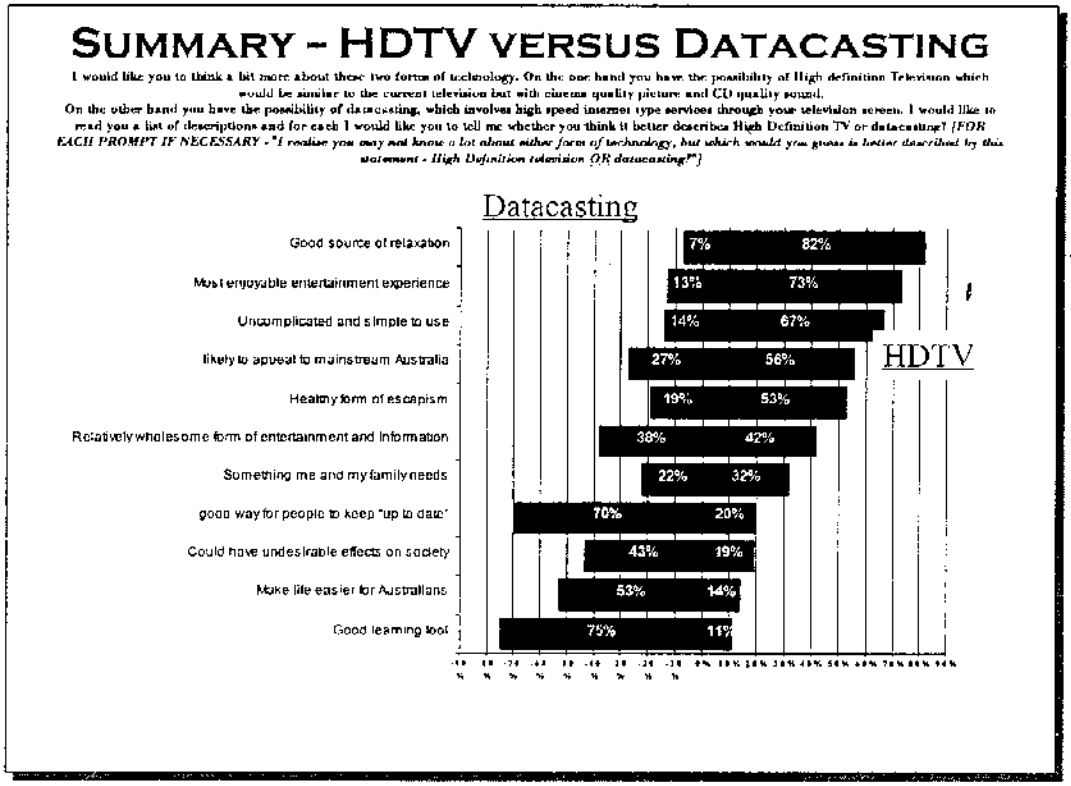
> *"Because I think you can use the internet. The internet's only going to get cheaper."*

> *"I think that information is available on the internet so why have it? And also I'd rather go out and do my banking and shopping, its getting out of the house, people would become so lazy."*

Furthermore, the benefits of datacasting are seen to be inconsistent with the core function of a television – which is to bring about a state of relaxation by delivering information and entertainment via an intrusive medium (ie, one that comes to them). Like the internet, datacasting is seen as a tool that would be useful, but something that is associated with working and learning, not something you associate with relaxing. For this reason the benefits of datacasting are somewhat discounted:

> *"I've already got the Internet, and I work from home so I use that for just about everything. I just like the TV to sit down and have a good clear picture and good quality."*

> *"TV is more entertainment where the Internet is more where you want some specific thing to look up and find the information, and if I'm at home on the computer I feel like I'm just at work. Because I work on the computer all day I don't really want to get on it at home, I'd rather watch TV."*



THE TRANSITION FROM ANALOGUE

Perhaps the most pleasing aspect of the 1998 deal on Digital Television is that viewers think will have eight years to make the transition. While a minority of participants indicated that they would, ideally, like more time, the broad consensus was that this was a fair provision, because:

- It would give people time to plan ahead;
- It is close to the approximate life span of a new television *anyway*;
- It would allow time for the price of new technology to come down;
- At the same time restricting the transition period to eight years, it would be fair on the TV networks and would not indefinitely delay the transition to the new digital system:

> *"But you've got eight years. TVs break down, people need to buy new TVs anyway."*
>
> *"Eight years. That seems fair enough all round."*

During this eight-year transition to digital, participants are unanimous in wanting to be assured, first and foremost, that their

current analogue signal will not be disrupted. While uncertainty exists about what digital television will ultimately deliver and how much it may cost, participants seek the certainty and peace of mind of knowing that the current form of television that they know and like will still be available as it is today.

For Gosford participants (included in our focus group sample), maintaining current analogue television includes maintenance of the "overlap" stations they receive from Newcastle. It is considered one of the "perks" of living on the Central Coast that they have both Sydney and regional versions of the main broadcasting stations:

- When a cricket game at the SCG is not a sell-out, Sydney residents are denied coverage of the match. Central Coast residents however can pick up the transmission from Newcastle;

- The local news is often more informative and relevant than the bulleting coming out of Sydney. Central coast residents like being given the choice.

- Often program times are different between the Sydney and regional networks. Central Coast residents like the extra flexibility and this offers.

There is a clear order of preference in the arrangements during the eight-year transition to digital TV:

1. Ensure that the current analogue signal remain intact, then;

2. Introduce HDTV, then;

3. Introduce Datacasting.

If it is the case that heavy use of the digital spectrum interferes with the current analogue signals and that a trade off is necessary, it is the almost unanimous wish of group participants that datacasting be the first sacrifice.

> *"Keep what we've got intact. That's the most important thing."*
>
> *"If you had a choice of which to get rid of first, it would be datacasting."*
>
> *"This isn't the sort of technology I'm willing to suffer for, I'm not willing to give up anything for it....Yes, it's a nice to have, not a must have."*
>
> *"We can do without Datacasting because we haven't had it before. But I can't do without a clear picture for the next cricket test!"*

"If it was over a six month period I suppose we could put up with it but not for a eight years. No way."

THE DEFINITION OF DATACASTING

As mentioned above, participants tended to think the Digital Conversion Act of 1998 seemed to be a sensible and fair outcome:

- It was thought to be "fair enough" that the television stations be loaned spectrum for free, in light of the $1 billion they would need to upgrade to be able to transmit HDTV;
- Participants are pleased that TV would remain free, be broadcast right across Australia, retain 55% Australian content and be subject to content (classification) rules;
- Participants are generally satisfied that eight years is a "fair length" of time to allow for a fair transition.

In light of the fact that television broadcasters would be required to make a considerable investment and continue to conform to the current broadcast guidelines, participants think it both fair and desirable that the transition to HDTV be allowed to commence unhindered:

"If they're spending a billion to get this up and running, you've got to give it a chance to work."

While not understanding the full technicalities of the restrictions FACTS propose for datacasters, participants accept the logic that if datacasters are allowed too much latitude, that they will be at an unfair competitive advantage to broadcasters and thus the transition to HDTV might be threatened.

Argument for HDTV		Agree (Strongly)	Disagree (Strongly)	D/S Agree – Disagree (Strongly)
If the TV stations have to spend upwards of $1 billion upgrading the system and equipment in order to broadcast cinema quality high definition TV and are still required to keep television free to air and provide it right across Australia to regional areas as well as capital cities, it would be unfair to allow datacasting to have the look and feel of television so that it can compete directly with TV without having to make these same commitments to Australians	Total %	62% (27%)	19% (9%)	+43% (+18%)

"I think the TV stations are right. They're spending all this money."

"They're looking to become broadcasters and not incur the same expense as broadcasters have to incur, and provide services to regional areas."

"I think it's like the Telstra / Optus thing where they are just looking for a free ride on the existing network."

Given that their preference is strongly in favour of HDTV over datacasting, Australians are probably, at this time, more likely to agree with the arguments of the broadcasters and support arrangements that will ensure the success of the transition to HDTV:

Argument for HDTV		Agree (Strongly)	Disagree (Strongly)	D/S Agree - Disagree (Strongly)
It is more important for Australia to make the conversion to world class high definition digital television successful than it is to bring about world class datacasting	Total %	54% (20%)	30% (13%)	+24% (+7%)

"I think the TV is the thing that's there first it should remain high definition TV and the datacasting should be a secondary thing."

TWO SYSTEMS?

The immediate and obvious benefit of requiring television stations to broadcast in both standard and high definition is that the television consumer will have more choice (so they can choose the "Holden" or the "Mercedes" options). This initial attraction to more choice however is very easily removed by the FACTS' suggestion that this would create two "systems". Participants display a propensity to be persuaded to the FACTS' position by the argument that:

- Two systems will be too "messy";
- If TV networks are spending $1 billion on the transition to digital, that it is important that the transition works;
- The more people who go for HDTV sets, the quicker the price of these sets will come down.

Argument for HDTV		Agree (Strongly)	Disagree (Strongly)	D/S Agree – Disagree (Strongly)
Given that there will be an eight year period to make the switch to digital, it is better to pick the best system of television and go with the one system, rather than having two standards of TV, which rely on two different styles of Television equipment	Total %	72% (40%)	21% (9%)	+51% (+31%)

Participants still have nightmares about the "VHS versus Beta shambles" of the 1980's and express a strong desire to have a *smooth* transition to digital. To make a smooth transition it is thought to be better to go straight for the ***best*** system rather than "stuffing around with half arsed options":

> *"I don't think you want two systems. If the technologies there to improve it, then improve it. If they just had three years to switch over I'd be filthy, but if its eight years. then just go for the better option."*
>
> *"I think that's a good example. VHS and Beta. That was just stupid. We don't want something like that."*
>
> *"If one's superior and one's inferior, then why stuff around with the inferior one?"*

"The difference between VHS and Beta, everyone knows the experience there. Why would you want to go through that again?"

"You will have a choice. You can buy a small set, or a big set. You can change over right away or you can take your time. But why have two systems?"

When confronted with two diametrically opposite views, of providing more choice, with a cheaper option (represented by Mr Jones below), or simplicity through picking one system (represented by Mr Smith below), our survey respondents indicated a preference for "picking the best system and bringing everyone onto it" by a ratio of 3 to 2:

Methodology note: In order to determine which of two opposite positions our survey respondents agreed most with, we presented them as the opinion of two hypothetical people – Mr Smith and Mr Jones.

Mr Jones thinks the TV networks should be required to broadcast in both a lower quality standard definition and in cinema quality High Definition so when consumers upgrade their sets they will have a cheaper option and therefore have more choice.

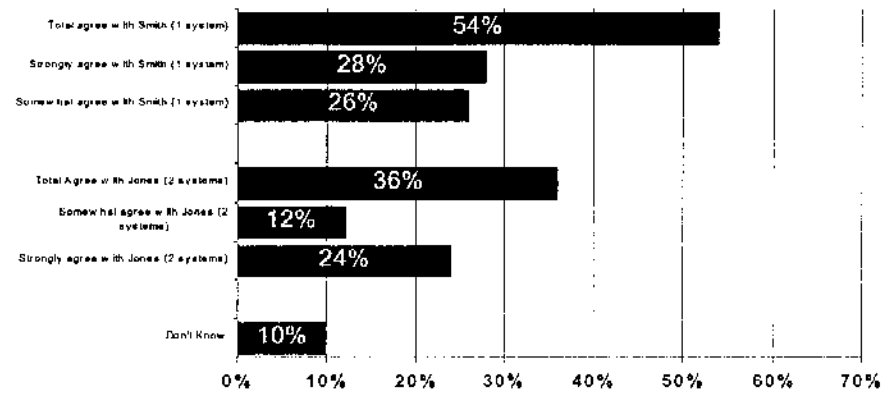
Mr Smith thinks that in order to have a smooth transition from analogue to digital TV that we're better off to pick the best system and to bring everyone onto that system. He thinks the new system should be simple and that having two systems will create too many problems, just like the problem caused by having VHS and Beta VCR systems in the 1980's.

HDTV VERSUS DATACASTING

Starting from January 2001, there will be an eight year transition period from analogue to digital in which TV networks will be required to keep the existing form of analogue TV unchanged in order to give people time to convert to digital. After this time current analogue television sets may no longer be able to pick up a signal, so consumers will have to, at some point buy a converter box, or upgrade to a high definition TV. There is currently some debate about whether or not once digital TV comes in in 2001, the TV networks should be required by law to broadcast digital television in both lower quality digital format as well as the high definition format with cinema quality picture in addition to broadcasting in analogue during the eight year transition. I want to read to you the opinions of two hypothetical people and for you to tell me which opinion you agree more with. Lets call these two people Mr Smith and Mr Jones.

Mr Jones thinks the TV networks should be required to broadcast in both a lower quality standard definition and in cinema quality High Definition so when consumers upgrade their sets they will have a cheaper option and therefore have more choice.

Mr Smith thinks that in order to have a smooth transition from analogue to digital TV that we're better off to pick the best system and to bring everyone onto that system. He thinks the new system should be simple and that having two systems will create too many problems, just like the problem caused by having VHS and Beta VCR systems in the 1980's.



The argument to encouraging the widespread take-up of HDTV sets and receivers is also bolstered by:

- A belief that to some extent, people "need protecting from themselves". As with the case with Beta video buyers, it is thought that those who stick with standard definition receivers would soon lament that they were stuck with the "half arsed option":

  "You can say its good to have a choice, but like a lot of people bought Beta videos and then saw that everyone else had VHS and wanted VHS and so their Beta video became redundant."

  "People who settle for less will eventually kick themselves."

  "I think people need to be protected from themselves. If you offer poorer people a cheap one, then they realise they got the worst one, they're going to want to change."

  "I don't think it would work. The VHF and Beta didn't work did it? Otherwise people will buy the lesser quality one and then not being happy, and a few years later having to buy the other one."

- It is thought that HDTV would be the medium that is more likely to appeal to a mass audience. It is thought that the people who are most likely to embrace datacasting were in turn NOT likely to be those unable to afford an

HDTV set / receiver (and so the "affordability" argument is somewhat flawed).

> *"The argument's flawed. The people who are going to use datacasting are your young white collar types. They're the ones who can afford the High Definition set. How many poor people are going to be jumping onto datacasting right away. But they might want high definition TV."*

> *"The people driving the demand for just standard TVs are not going to be the people who can't afford high definition. There are still a lot of people who use cheque books for the banking. They're not going to rush out and buy something that will let you do your banking through the TV."*

> *"The people who are going to be buying it first are the rich people, but later on the prices will coming down."*

- Participants are almost convinced that the cost of equipment HDTV sets and receivers will come down markedly during the eight-year transition period.

  - They understand and accept the argument that as HDTV "catches on", that more people will want HDTV sets, the market will be the larger, the production will be more efficient and the competition for the consumer's dollar will be more fierce;

> *"There's people that have to have them and will pay top dollar for them but there's only a certain percentage of the population that will do that, so then of course the companies have to bring the prices down."*

> *"You'd have people who would say I don't want a HDTV, but I guarantee after a few years of seeing them around, when your TV is ready to be replaced you'd probably think Gee it would be good to get one of those super duper TVs."*

> *"If you've got SD and HD, and five million buying SD and five million buying HD, then you'll have a certain price for both. But if you've got 10 million buying HD, then the price will be lower. Because there will be so many HD sets on the market and it will be like every other new thing. That's how it works."*

> *"With the level playing field, there's no duties or whatever. These manufacturers in Taiwan, they'll start producing lots of them, they'll get better and better at it and they'll be cheaper."*

"If 10,000 people buy a microwave, they'll cost $1,000. But if a million people want them, then they'll produce more and produce them more cheaply and cut their profit to sell more units."

"There will be people that just have to be so up to date with everything that they will just have to rush out and get one straight away. So they'll try and rip off those people first, but then when it gets more widespread appeal, everyone will want one, so the price will come down."

- Participants are amazed at how quickly the cost of new technology comes down, as evidenced by the crash in the $ price of VCRs computers and mobile phones (to the point where they now literally give them away). They have little current doubts that the same will occur with HDTV:

"It will probably cost a lot when it first comes in but after it's been in there for a while it will become cheap."

"It's tradition. Whenever something comes in it's expensive, but it comes down very quickly."

"18 years ago I bought a video from overseas for $1,000 and that was half price."

"And I bet that would have had about three features. You could buy that video now with 33 features and it would be a third the price."

"CD players. They came right down."

"Mobile phones. They're giving those away. A few years ago they were 800 bucks and now they're literally giving them away."

"Look how affordable mobile phones are now? When they first came out you used to basically have to put a second mortgage on your house for them."

"Yeah and now they are giving them away."

The ease with which FACTS can POTENTIALLY offset fears about the price of HDTV sets is demonstrated by the strong levels of agreement (85% agree, 52% strongly) with the argument that 'as more and more people catch on to High Definition Television it is inevitable that the price of High Definition TV sets

will fall, just like the price of computers, VCRs and mobile phones have all come down.':

Argument for HDTV		Agree (Strongly)	Disagree (Strongly)	D/S Agree – Disagree (Strongly)
As more and more people catch on to high definition television it is inevitable that the price of High definition TV sets will fall, just like the price of computers, VCRs and mobile phones have all come down.	Total %	85% (52%)	11% (4%)	+74% (+48%)

IF IT'S GOOD ENOUGH FOR MEXICO...

Your audience continues to be motivated by the argument that Australia should not be left behind the rest of the world. For a clear majority of your audience, the argument that 'if the US, Canada, South Korea and even Mexico have made a decision to go with HDTV, that Australia should not be left behind...' provides reason enough for policy makers to bite the bullet and make the necessary decisions to ensure that there is a successful transition to HDTV:

Argument for HDTV		Agree (Strongly)	Disagree (Strongly)	D/S Agree – Disagree (Strongly)
The United States, Canada, South Korea and even Mexico made a decision to go with digital television in such a way that their citizens will have wide screen cinema quality television. Australia should not be left behind by the rest of the world and should make sure that the conversion to high definition TV be allowed to work	Total %	79% (42%)	13% (5%)	+66% (+37%)