Dr Lynne Williams
Broadcast Commission

Submissions re draft report.

Dear Lynne,

Enclosed my reaction to the Report.

[1] I have split it into two. First a general reaction, this is followed by further information along the lines I have provided before; key trends and developments that are happening around the world.

Reaction to the Draft Report.

[2] The long-awaited report from the Productivity Commission (PC) on the Information Highway Future of Australia has recommended exactly what we have been arguing for since the current government took the disastrous decision last year to once again regulate technologies – in this case the digital TV technology.

[3] Rather than splitting up the digital TV technology into a 'pretty picture' service, called HDTV (High Definition TV), and an interactive service called datacasting, the Commission suggested leaving the market open for competition and doing as little as possible to impede progress towards a competitive development of the information highway for all Australians. So far no other country has made a similar mistake and no other country has indicated that there is a great demand for HDTV.

[4] This will leave HDTV dead in the water. With Australia the only country in the world where HDTV will be mandated the global TV equipment industry will only have to produce these TV sets for customers Down Under. You can imagine what that will do to the price (currently around US$5000!). Under the current conditions there is no way in the world that the price of HDTV sets will drop to below $2,500, let alone to $1,000, as the Australian free-to-air oligopoly would have us believe. In Europe, SDTV (Standard Definition TV), based on the current PAL system, is making inroads into the top end of the TV market. SDTV also delivers a 'pretty picture' and sets are readily available. I have not come across any European country that is considering introducing commercial HDTV services within the foreseeable future.

[5] Far more important, however, is the fact that, under the proposed government regulation, Australia will miss out in developing a very important part of the information highway. Digital TV, as we have argued on many occasions, will be developed around the globe as a second Internet platform. This will bring a very large proportion of our community – those who do not use the PC for that purpose – into the realm of the new information communications world. Under the government's plan this section of the community would be deprived of high-speed access to interactive services thus precluding them from becoming participants of the new information highway society.

[6] The Productivity Commission has delivered something to everybody, except unfortunately to the current government. First of all, the big winners will be the consumers. Under the proposed changes there will be more choice, lower prices and access to relatively cheap technologies. Let the consumer decide if they want HDTV – not the government, and not the industry.

[7] All the industry groups involved win some and lose some, but the overall picture for everybody is positive. None of them will now be able to monopolise their market, be it free-to-air TV, pay TV or telecommunications. This, of course, would be a fantastic outcome if our politicians had the courage to take hold of a future which embraces the new interactive world rather than the old world of monopolies, oligopolies and media pork-barrelling. Understandably the cross-media and foreign ownership issue will be very tough political nuts to crack. However, our politicians (Government, Opposition and Democrats) could accept the principles in broad terms, but implement the recommendations over time, linked to certain market conditions and with an option to restore restrictions if problems occurred.

[8] The PC report could also be a good start for the telecommunications review of 2000. During the telecommunications deregulation process of 1996/1997 we argued for an all-encompassing regulatory regime (telecoms, broadcasting, Internet). This PC report could be the beginning, with the

finer details being worked out in the Y2000 review of the current telecommunication regulatory environment.

[9] The interconnect restrictions put in place by the government on the use of digital spectrum to protect the free-to-air and pay TV broadcasters is totally out of step with developments around the globe. Australians and the Australian content, media and IT industry will be severely disadvantaged in comparison with other countries. It is like a re-run of the pay TV moratorium policy that lasted for 15 years during the 1980s and 1990s--- do we never learn? The proposed changes would also greatly help the ACCC in its current battle to break the pay TV content monopoly.

[10] I hope the government will be courageous and do the right thing. To make the necessary policy changes they could use arguments such as the very fast-moving developments of the Internet, broadband networks, e-commerce, etc – these have only accelerated over the last 18 months since the government developed its current policy.

Paul Budde

Latest Trends, Developments, News

Update from the USA

[11] There are only a handful of HDTV customers in North America. Fewer than 10,000 true HDTV receivers would be in operation in the United States by year-end. Of those, many are satisfied with the programming they are getting from terrestrial broadcasters or the handful of cable operators that carry digital TV. That leaves only a few thousand customers to be divided among the HDTV operators.

[12] In North America, TV officials admit that switching to HDTV is a big risk for operators. The problem is that true HDTV ‘chews up’ bandwidth. HDTV is also expensive because, although the film that is used to produce theatrical movies intrinsically has enough definition for HDTV, it still has to be converted, via telecine, to the HDTV format. The conversion, much of which is done by Sony, can cost hundreds of thousands of dollars per movie.

[13] ‘Never has so much [money] been spent by so many people on so few customers’, said David Baldwin, HBO’s senior vice-president for program planning.

[14] For terrestrial HDTV broadcasts a consumer needs to buy an HDTV set, currently costing US$5,000-$10,000, depending on the manufacturer and options. Consumers are showing reluctance to spend money on HDTV electronics. One survey indicated that more than 70% of US consumers were not willing to pay US$1,000 more for an HDTV set than they would for a high-quality SD set. Only about 10% said they were willing to pay the US$5,000 premium, which is more typical today.

[15] In a report from Boston-based Strategy Analytics, called *Interactive and Digital Television: Issues in the Transition Phase*, researchers determined that the FCC's plan to convert US households to digital television by 2006 is ‘on the verge of collapsing’.

[16] Strategy Analytics suggests there currently is no proven business model for services such as High Definition TV, and that it is likely to be too expensive for mass market adoption. The firm also predicts that less than 5% of US households will be watching over-the-air digital television by 2005.

[17] In the USA the latest indications are that the current analogue services will have to remain in operation until at least 2013-2016!! (In Australia, under the government mandate these will turn off in 2008).

Pricing key to digital TV

[18] Price is the key to the new information highways it doesn’t matter whether we are talking about cable modems, xDSL or digital TV. In monopolistic markets the operators bundle services together and sell them as expensive packages.

[19] As soon as competition arrives (beyond duopolies and triopolies) we see far more attractive price offerings being introduced all round the world. In semi-monopolistic markets such as Australia

and New Zealand users will have to wait until the operators have creamed the top off the market and want to penetrate further (as a rule of thumb, this happens around 20%-25% penetration). Prices will have to drop to around U$20-US$35 per month in such scenarios.

Update from the Europe

[20] Europe has chosen not to follow the HDTV track at all, instead using a PAL upgrade called SDTV, providing 'pretty pictures' to those who want it at a much lower price. In Europe they market these SDTV sets only to the top end of the market (3%-5%). The inference then is that SDTV, let alone HDTV, will not be a widely used consumer product for many years to come.

[21] Research released in the UK in late 1999, further emphasises the pricing issue as addressed above.

[22] This indicated that Britons would prefer to sign up for digital television on a 'pay-as-you-go' basis, rather than pay monthly bills. The study, released by electronic payments company Mondex International (a subsidiary of MasterCard International) and conducted by NOP Research Group, shows that 57% of those interested in signing up for digital TV (DTV) would opt for the pay-per-view option if given a choice.

[23] The findings are significant because they also demonstrate rapidly increasing demand for digital services in the UK, with 25% of respondents indicating that they are likely to sign up for DTV within the next 12 months.

[24] As over 2 million UK households receive a digital signal already the research implies that these figures will more than double – adding an additional 2.5 million subscribers – in the next year alone. This shows that the DTV market is on the verge of mass-market acceptance.

[25] In the UK, digital TV is based on low-cost (sometimes free) set-top boxes, not the expensive HDTV model that the government is prescribing for Australia. The Mondex-enabled set-top box allows consumers to purchase television programs, and ultimately a range of other services, on a per channel or item-by-item basis rather than by subscription.

[26] This completely changes the economics of the broadcast and pay-for-data market. It is believed that unbundling and the sale of individual items significantly increases turnover, compared with purchasing access via subscription. Firstly, it makes DTV attractive to a wider range of consumers and secondly it allows for impulse purchasing and differential pricing of program content based on demand.

[27] More than one-third (36%) of those questioned in Britain said that a major barrier to signing up was price. The research findings suggest that many consumers favour the idea of paying for specific channels and program on a pay-as-you-go basis as this would allow them to control their spend more closely.

[28] More than half of those polled (56%) said that they would be willing to pay for special events – sports or movies – at least once a month. A significant group (30%) of respondents said they would be likely to pay-to-view two or three times a month, and a further 10% said they would pay-to-view more than five times a month. These figures suggest that there is a large potential audience – representing an enormous stream of untapped revenue – for broadcasters who offer a pay-as-you-go plan.

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