



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON COMMUNICATIONS,  
INFORMATION TECHNOLOGY AND THE ARTS

**Reference: Uptake of digital television in Australia**

TUESDAY, 28 JUNE 2005

SYDNEY

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES



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**HOUSE OF REPRESENTATIVES**

**STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE  
ARTS**

**Tuesday, 28 June 2005**

**Members:** Miss Jackie Kelly (*Chair*), Ms Owens (*Deputy Chair*), Mrs Bronwyn Bishop, Mr Garrett, Mr Griffin, Mr Hayes, Mr Johnson, Mr Keenan, Dr Laming and Mr Ticehurst

**Members in attendance:** Mrs Bronwyn Bishop, Mr Garrett, Mr Hayes, Mr Keenan, Miss Jackie Kelly, Dr Laming, Mr Ticehurst

**Terms of reference for the inquiry:**

To inquire into and report on:

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

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**Committee met at 2.30 pm****FALLOON, Mr Nicholas Graham, Executive Chairman, Network Ten****HERD, Ms Annabelle, Network Manager, Broadcast Policy and Regulatory Affairs, Network Ten****WINES, Ms Marie, New Media Development Manager, Network Ten**

**CHAIR**—Welcome to the Standing Committee on Communications, Information Technology and the Arts inquiry into the uptake of digital television. The inquiry arises from a request to this committee by Senator the Hon. Helen Coonan, the federal Minister for Communications, Information Technology and the Arts. Written submissions were called for and 76 have been received to date. The committee is now conducting a program of public hearings and informal discussions. This hearing is the fifth for the inquiry. Although the committee does not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Would you like to make a brief opening statement?

**Mr Falloon**—We were going to make a detailed statement but, in the interest of time, we will shelve that. I will give you a quick overview of our views and then throw it open to questions. I believe that will be more useful. Having just visited Ten you know who we are and we do not need to go through that, and we have put in a submission.

**CHAIR**—We have your submission; perhaps you could give us a quick summary of it.

**Mr Falloon**—It is our strong view that the transition from analog to digital—and we read a lot about it that gets confused in the newspapers—is actually a movement from one technology to another. It is on track and, in our view, it is doing extremely well. A lot of what is written is misinformed. We believe that the change from analog to digital and the preparatory groundwork that is being laid for the move to high definition—and I believe you saw some evidence of that today out at Ten—is absolutely the right track for us. We say that in the context of where Australian television has come from over last 50 years. It is, in our view—and I think this is supported by a lot of people—the best broadcasting service for the population, especially when you consider the size of Australia: 20 million people. The fact is that all five networks are supplying more than 55 per cent Australian content. We give our viewers the best of sport and the best of all the international programming that is on offer, and we do that for free.

A lot of the misinformation which we can talk about in question time about comparisons to the UK and the US really need to be put in the context of the total comparison between what is going on in those countries with what is going on here. We actually believe the transition is on track. We believe the government policy that was put in place some time ago to enable that to take place over time and to enable the Australian consumers not to go out and buy expensive technology when it first becomes available is absolutely being proved to be correct. The prices are rocketing down. The uptake is accelerating, as with all other technologies. At the end of the day, it is a choice for those individuals to decide that they want to spend the money to get a

better picture in digital while the analog service is kept up. The broadcast networks in this country have all gone out and spent hundreds of millions of dollars to enable them to put out signals in analog, digital and also in high definition.

The system, as we see it, is absolutely working. We think it is essential that, if the Australian viewers are going to keep getting quality Australian programming on top of the very best of what is available from overseas, then we need to make sure that, in any transition that takes place going forward, that is kept perspective. I say that in regard to the debate here about a technology change that is happening around the world and has been happening for some years. There is already on our doorstep a whole range of new technology changes about to hit all of us, and that is why I think we need to consider this in its totality. I will stop at that point and throw open the discussion to any and every question you like.

**CHAIR**—You are quite confident that the sale of digital receivers is on target, but you have not commented on a switch-off date. Would you care to comment on that? We have 10 per cent penetration at the moment. What would you expect the level of sales to be over the next three years?

**Mr Falloon**—The level of sales is increasing. As to a switch-off date, I am not aware of any absolute switch-off date to move from analog to digital anywhere around the world. They talk about a potential date in the UK at the moment but, as I say, we need to be careful to compare apples with apples when we are comparing our systems. We, for example, support that the government has not chosen to do this. The mandatory putting of a simple chip in all new TV sets sold in the country will in our view provide a finite date at some point out in the future. Why that has not been adopted I do not know. I know the manufacturers are not in favour of that but the Ten Network has for a number of years been putting forward that as the logical next step in the solution.

**CHAIR**—You would be quite happy to continue indefinitely transmitting in analog?

**Mr Falloon**—Not indefinitely. The technology is moving faster and the take-up is accelerating so I do not think it is indefinite. That is not what I am saying at all. I do not know what the right date is. If 10 per cent or 20 per cent of the population say that spending \$100 or \$50 is too much for them then at some point there is going to be an issue for every country around the world for the final part of analog-to-digital switch-off. The other side of the question is the rush. There is this rush to make people take up faster. That is certainly the way it is written in a lot of newspapers. The government policy that has been put in place has actually provided for the fact that we do not want to rush. We want to give the consumers out there the choice to say that they do not want to spend \$500 today because in a year's time it is going to be \$400 and a year down the track it is going to be \$300. That is their choice. We have been forced to go out and multicast as well as provide the HD cast and put the infrastructure in place to handle that. It will not go on forever because analog is a dying technology and there will come a time, if it has not reached that date, when the networks will not be able to replace the analog technology. It is not a matter of forever. But it is a matter of making sure that you do it for the right reason.

**CHAIR**—Say there are 1.5 million TVs being sold each year. That is 17 million TVs in 10 years. If it was mandated then in 10 years you would presume there had been a whole renewal of the fleet.



**Mr Falloon**—The latest information I have been given is that people on average turn their TV sets over every seven to eight years. We both know that doing averages is dangerous for the 10 per cent who might hang on to their TVs until they break down and fall apart, so there may be people who take longer. That will be an issue at some point at the end of the process, whether it is in five, 10 or 15 years time. It is a transition path that is working.

**Mrs BRONWYN BISHOP**—You might turn over your main television but you usually put the old one in another place in the house, and it is still functioning.

**Mr Falloon**—Absolutely, and this policy provides for that to keep happening as people do that.

**Mrs BRONWYN BISHOP**—We have a notional 2008 date at the moment, don't we?

**Mr Falloon**—We do.

**Ms Herd**—I think 2008 was always going to be the absolute earliest and it was never a switch-over date. It was the date at which we have a look at what is happening.

**Mrs BRONWYN BISHOP**—In realistic terms you are looking more at half a dozen years rather than—

**Mr Falloon**—In realistic terms there are a number of years to go before the analog service can be switched off in this country. That is a reality. People hold that up and say, 'That is a terrible thing,' but I am not sure it is understood. A lot has been written on the advent of pay TV and the comparison between digital and pay TV versus free-to-air, and it confuses the argument. The whole policy was designed to say to the consumer, 'You don't have to pay for it.' Our whole free-to-air television system in this country is free to the consumers, and the television networks pay licence fees to the government for doing that. In the UK it is not that way. The UK system is completely different. Each individual over there pays a very big licence fee and it goes to the BBC—we are talking £2.6 billion per year—to fund the content that goes out. It is a completely different system.

**Mrs BRONWYN BISHOP**—We used to do that once.

**Mr Falloon**—We used to do that once. But most of the arguments I read in the newspapers are saying, 'We want to be like the UK but we don't want to pay anything for it, we don't want the consumers to do this and, by the way, we want our spectrum back sooner because the spectrum has massive value.' Right now spectrum can obviously be put to other uses, but there is not a massive shortage of spectrum. When the analog service does turn off, there will be spectrum available. In our view a lot of the arguments have become quite confused. I think a lot of the arguments also become confused not only when people start talking about the switchover from analog to digital but also when they start bringing in what the telecommunications companies are doing in the whole debate on broadband and the rest of it. These debates seem to get confused with each other. They are completely separate arguments.

**Mrs BRONWYN BISHOP**—Convergence is still a kind of non-existent protocol, isn't it?

**Mr Falloon**—In my view convergence is happening all around the world but at different paces in different places. It is failing in some places and succeeding in others. But we have no doubt as a TV broadcaster that we are facing convergence. It is happening. A lot of what we are already turning our focus to is the new technologies that we are not even talking about here today.

**Mr TICEHURST**—What do you think the government should be doing to drive the uptake of digital?

**Mr Falloon**—The one obvious thing that I mentioned earlier would be to mandate. Let me try to explain. The FCC in the US a few years ago basically set a timetable that said that all new TV sets sold on the market on a certain schedule must have a digital tuner. The consumer does not know the difference between a TV set with or without a digital tuner; it is simply a manufacturing thing. In other words, they will not continue to sell consumers old analog TV sets. Putting in a digital tuner in this day and age is as simple as changing a switch or a plug in a TV set.

**Mr TICEHURST**—So what do you do when you come to MPEG4? You are transmitting now in MPEG2. What will you do then?

**Mr Falloon**—That is a whole new technology.

**Mr TICEHURST**—What about if you buy a TV today, and we have mandated tuners, so they have MPEG2 technology put in—

**Mr Falloon**—We will put in digital so that everyone moves to digital.

**Mr TICEHURST**—Yes, a digital tuner. But what happens then when you come to MPEG4? It has to be a different—

**Mr Falloon**—If it comes to MPEG4, Marie can correct me if I am wrong, but we will have to broadcast on a whole different spectrum. MPEG4 is just one example of what, in my view, will be five, 10 or 15 new things that we will face some time over the next 10 to 20 years.

**Ms Wines**—MPEG2 will then be a legacy system.

**Mr GARRETT**—Can I come quickly back to clarify your view about the 2008 date. Are you saying that is not achievable?

**Mr Falloon**—I do not believe it is achievable. It has not been achieved anywhere around the world. I do not think anyone believes it is achievable. That is not to say that I do not believe that the progress is not accelerating and happening.

**Mr GARRETT**—In terms of the way it has been progressing up till now, would you say it would be 2010 or 2012? Do you have figures on the uptake?

**Mr Falloon**—I would not like to put a date on it. The whole government policy, fully supported by the Labor Party and all the minor parties when it was put into place, said: ‘We’ll

get the networks to spend the money so that they can do this. We'll lend them the spectrum while they do it, for maybe this period of time, so that the Australian consumers do not have to go and buy expensive equipment.' So the whole policy says to people, 'You don't need to rush; you need to take your time because the prices are coming down.' And that is exactly what is happening. So the people who can afford a new TV set can buy it tomorrow and get digital. The people who want to wait can wait a bit longer. The prices are coming down exponentially. Our view a few years ago would have been that they should have gone one step further, like they did in the US, and said, 'You will only sell TVs into the market that are capable of doing it.'

Before we get on to your other question, the difference between an analog TV and a digital TV is a simple little chip in the back of it. It is a simple little thing. The consumer will not know the difference. The manufacturers will probably tell you that, for us to change to that, it might cost us a little bit more money on day one. That may be true. But, at some point in time, that is what has to happen because we have a whole policy that says to the consumers, 'We are not going to force you to do it.' What you get from the free-to-air television networks is something for free; we do not charge you for it. That is totally different to other countries. That is why I challenge a lot of the stuff that is written in the newspapers on this subject. It picks out a quarter of one argument and applies it to the other side of this argument, which is totally irrational in our view.

**Mr GARRETT**—There are probably some people here who you will have an opportunity to put those views to as they are hearing them from the observers part of this meeting. In the British experience, leaving aside the public policy issues of licensing vis-a-vis national broadcasting, would you agree that there has been quicker uptake there partly because there has been more content for people to draw on?

**Mr Falloon**—I think that will have played a part in that.

**Mr GARRETT**—The follow-up question, of course, is a question about content. We are keen here generally to see what people's views are about content. Let us take it from another perspective. Let us look at datacasting. Should we have datacasting? Should it continue?

**Mr Falloon**—I have always believed, from the moment datacasting was talked about, it was yesterday's technology—if it ever was today's. With the internet and everything else, most people around the world outside of discussions here do not even know what we mean when we talk about datacasting. It is something we somehow invented and I do not even understand. I am completely dismissive of datacasting. Coming back to the British system, though, you do need to consider that what started and is driving this extra content over there was a complete failure of a free-to-air platform that cost the country absolutely billions of dollars. That underpinned that write-off of literally billions of pounds and the start of free-view, which has then come about based on £2.6 billion worth of content money being spent.

If we went out and said to the Australian public, 'You're going to get taxed that much money so we can develop Australian content,' we would have a completely different model. I stress that they started going down this digital track ahead of us and they went through massive pain before they got to where they are today. That has come out of that platform. It is a matter of putting things into a proper context of where it has come from. I have spoken to people in the UK and it is an interesting thing that, with technology moving so fast, you do need to future proof yourself. We have a path in this country not only to digital but also to high definition. We are required to

put out a certain quota of ours and there is no doubt in our minds that that is the way in which the world is going. If you look at the UK system you see that, on one hand, it has higher penetration. On the other hand, if you talk to them about what they are doing about high definition—because they completely left that off their debate—they say, ‘Yeah, it’s a big problem.’ If you go one step further, you see that all the content provider producers in the UK are producing their content in high definition. Why? Because they know the world is going to high definition and they cannot sell it unless they go to high definition.

If you sit down and talk—as I have done—with people at Ofcom in the UK, they say, ‘High definition is a real issue for us and it is right on our doorstep right now.’ I will keep repeating this: we have to keep remembering that we are 20 million people and we are in this process. What do we want to get out of our broadcasting service? One of the things that we have been judged by anyone around the world as being very successful at is that we have a high level of local content from all of the networks for a country of this size and that is part of our system. It only exists today because the government have legislated to force that to happen over a period of time. Right now we have all of these new technologies—this is just one of many coming at us—and we have to make sure that, because someone says there is a new technology, we do not throw that baby out with the bathwater.

For a first-case example of what not to do you only have to look at how we introduced pay TV into this country. It has cost the country billions. It is a service that has ended up as a monopoly. It can only be afforded by 25 per cent of the population. Yet we had the opportunity here to sit back and watch the way the rest of the world did it and we picked every bad example off the back of whatever policy it was. And do you know what? They produced almost zero—they will take offence at zero and that is why I say almost zero—local content. What good is that doing in the long-term game of what our broadcasting policy should be about? Yes, we have to embrace technology. Yes, we have to use it. Analog-to-digital is not an Australian selection; the world is going from analog to digital. It will go to MPEG4 if something else does not come along and supersede that before it gets here. That is the reality in which we live.

**Mr LAMING**—I have a two-part question. This committee has already heard from another network that in fact that is not the case and that people are driven by content and choice and not by quality and high definition. So rather than your view, which I know will be the opposite, is there any international evidence or even domestic evidence about what consumers are choosing? I was hoping that you might be able to direct us to that sort of research. The second part of the question is: for those who remain who do not transfer and who try to remain with analog, would you offer a view on how we would, from a policy point of view, look after those remaining viewers?

**Mr Falloon**—Let me deal with the first part of your question first. What I did say very carefully was that after 50 years this is where we are. We are in a transition. If I could wave a magic wand tomorrow and produce a gazillion hours of local Australian content and I could give the Australian consumers more choice for no money, would that help drive the take-up of digital? I think it might. But you have to put it all into the perspective of where we have come from, what we can afford and where we want to go.

One of the debates, apart from just the digital uptake, is the multichannelling debate. We are sitting here saying that we do not think that multichannelling makes any sense. Yet I am a

broadcaster and on another test somebody could say to you, 'But don't you want to put out one, two, three or four channels?' The problem is that I cannot afford to. I cannot afford the content. The advertising pie does not grow, because we are restricted to just advertising. You will actually reduce the quality and the content that we are giving to Australian people.

**Mr LAMING**—What are consumers telling us in research when they are asked?

**Mr Falloon**—I do not know how you do that. I could put the question to people. If I go out to the Australian people tomorrow and say that I do not want them to pay taxes any more, I will guarantee you will get 100 per cent of the people saying, 'That's great,' unless you put the tag line on it that says, 'You will not be able to afford hospitals, schools or whatever.' If I go out and ask them, 'Do you want five more TV channels tomorrow?' they will say to me that they do. Unless I say to them, 'Hang on a minute, they are going to be crap American programs,' they will not understand that it is just going to be repeat American product and that, as a result, the stuff that you will get is going to be half as good. Unfortunately, because it is a complicated industry we work in, no-one can explain that properly. I am not saying in an absolute sense that more take-up would not be driven by more content if you can afford it. What I am saying is that we have to transition a broadcasting service not just through this change in technology but through multiple others that we are already reading about while trying to work out which one is going to be the real one that is going to come down the pike over the next 10 to 20 years. All I am saying is: what do we want to look like in 20 years time?

**Ms Herd**—We have some research from Jupiter Research, which is from Europe, which suggested that when asked, consumers said:

... a quarter of those surveyed ranked HDTV as the most important factor in deciding whether to switch to digital.

When I say that it was a quarter, that was the greatest number of people that chose one single answer, so it was the highest factor. The other thing that we know is that there was a recent review done of BBC's multichannels 3 and 4, and they were found to be of 'poor value that did little to connect the BBC with its viewers'. I think that we refer to both of those in our submission.

**Ms Wines**—We have evidence of the take-up of the digital set-top box. About 25 per cent of the set-top boxes are high definition and about 20 per cent of the wide-screen monitors sold in 2004 in Australia were also high definition.

**Mr Falloon**—Will I answer the second part of the question?

**Mr LAMING**—If time permits. It was: would you care to offer a policy view on the final switch-off of analog and how it is done?

**Mr Falloon**—I think that, with the mandating of the chips—the continuation of the current policy—in a few more years it will take care of itself as we go through the process.

**Mr TICEHURST**—I have an issue with mandating. I belong to a government that believes in choice and freedom for the individual. Once you start talking about mandating things, you are

then walking away from that policy. When you are talking about putting a chip into TV, are you talking about a drop-dead date—a certain date upon which the set will no longer operate?

**Mr Falloon**—No. What the US did a few years ago was to say to the manufacturers that, by a particular date a few years out, they will not be allowed to sell into this market anything other than TV sets with a digital tuner in them. There was a big lead-up time for the production. The difference is that, instead of one switch, another switch goes in. The tuner does not know the difference. The argument is that you are mandating and the price might be slightly higher—and it is, possibly—but I suspect that you are talking about tens of dollars, not hundreds of dollars.

**Mr TICEHURST**—In that case, you probably are.

**Mr Falloon**—The analog set would still work. We would still keep broadcasting in analog. It is not like the thing that was sold previously would be wasted. All it would mean—if you apply what we were saying before—is that, in seven or 10 years or whatever the right date is, everyone would be buying digital. So the number of analog sets would fast fall off the back end. You would get to a point where you would say, ‘There are still 10 or 15 per cent of these things out there—how do we deal with swapping those out?’ We would say that, with the rate at which the prices of digital sets are coming down, that will become less and less of a problem as we go through.

**Mr TICEHURST**—But at the moment you have to triple broadcast, really?

**Mr Falloon**—Yes.

**Mr TICEHURST**—Eventually the number of analog sets will drop off. But in the meantime you can have a set-top box that will let the analog TV run, if that is what you want to do. If you want to have second and third sets—

**Mr Falloon**—You do not actually need a set-top box for analog; it just runs.

**Mr TICEHURST**—But if you get to the stage where you shut analog off, you can still run the old TV with a set-top box?

**Ms Wines**—Yes.

**Mr TICEHURST**—Set-top box technology changes a bit. I have four set-top boxes in two locations. They can certainly clean up the picture. For me, the driver to get a set-top box was to get a better picture because I live in an area where it is generally difficult to get TV. But, to me, you do not have to mandate that. If you want to really push digital TV, wouldn't it be better to give consumers a better choice or more choice of options? We saw a bit of datacasting displayed today. When I first saw it, I thought it was a teletext killer because, although there is a lot of information that is there, teletext is so cumbersome. Very few people would waste their time stuffing around with teletext. The datacasting had a lot of good information that was easily accessible, but, of course, you needed digital to do it. That could then provide a driver for digital. But do you see any other drivers that would push communicators into it?

**Mr Falloon**—If you believe what you read in the newspapers at the moment, Telstra is on the verge of bringing us internet TV. That will come through the TV screen at some point in the near future. There are massive changes coming. In our view, if datacasting ever was a technology of sorts, it was always yesterday's technology when you have things like the net and the rest of it.

Going back to my other point, if we could afford a zillion choices, would that drive it? Yes, but we cannot afford it. Therefore, the whole policy in doing what we are doing is to make sure that we preserve what we have and transition as we go. I think we are doing that at a very rapid rate by any test of a technology switch from one thing to another, when you overlay that.

**Mr TICEHURST**—What about standard definition? Do you think that should be switched off at some time?

**Mr Falloon**—I have no view on that. But if your question is to MPEG4, if MPEG4 becomes the world standard and the world switches off digital, we will all face that problem. We will not need to elect to do it; it will be forced upon us, because all of a sudden technology will move from the others. We used to broadcast in one-inch and two-inch tape and now we have moved to digital. That is the way of the world and technology is changing faster than most of us realise.

**Mr TICEHURST**—I agree with digital. High definition certainly has a lot of advantages. From your point of view, with three lots of broadcasting issues, if you are going to cut analog off then, using similar reasoning, you would eventually cut off standard definition. You would then have all the bandwidth to use on high definition.

**Mr Falloon**—It eventually comes back to a choice, with bandwidth management, of whether you are going to go down the high definition route, which we are already down, or go back and go down the UK route, which says that multiple choice and limited quality are the best way to go. I think the whole world is displaying that they are going down the choice that we are on. It is a long path, and we are in a transition mode which sets us up better than any other country.

**Mr HAYES**—I understand that your objection when we spoke to multichannelling was that the revenue will be spread pretty thinly across the channels. But you also go on to indicate that it is obviously viable for subscription. At what level of demand would multichannelling become viable for free-to-air?

**Mr Falloon**—It is an impossible question to answer for this reason: it depends on what content you are putting on, what it costs and how you are going to pay for it. At the moment the free-to-air networks, by definition, have one revenue source: advertising. If we put on an extra channel tomorrow, I do not think the advertising pay is going to grow by one dollar. So the extra costs of the content start to eat away the profitability of the industry. So, yes, you have more choice but, effectively, who is paying for it? If you multiply that by hundreds of channels, some of them might be cheap channels; some of them might be expensive channels. It is a subject of argument. There is subscription multichannelling, on the other hand. There have been a lot of differences, as I understand it, from all three free-to-air networks on multichannelling, but even the Seven Network have said in their submission that free-to-air multichannelling without subscription is uneconomical. We have always been of that view, as are, I believe, Nine.

**Mr HAYES**—It is not economical even on a part-time basis?

**Mr Falloon**—No. I just do not think you can have a part-time policy. As we have said, we think that the route is the high definition route. But if that is wrong and the government goes down a multichannelling path then we do not think it is logical that it be a multichannelling path where you can have multichannels but you cannot charge. We have a pay TV business in this country which has effectively now become a monopoly. We are simply saying that, if you are going to go down that path, at least attempt to get the content—

**Mr HAYES**—You want to participate in it, then?

**Mr Falloon**—We want to at least be able to get two revenue sources to build that content, otherwise that content is not going to exist. It is not a magical thing where you can wave your hand and say, ‘I want that and I want the content.’ You have to understand the industry to understand that it just does not come along. As I said, the UK system has been built out of that history. There is a significant budget that gets spent just on that.

**Mrs BRONWYN BISHOP**—On that multichannelling theme, I understand that you are saying that the cost of running a second channel is identical to the cost of running the first channel.

**Mr Falloon**—Not necessarily. It depends on the content that you put on it. What I am saying is that if you went out and ran the same news, all the movies and all the rest, it would be the same, but not if you went out and just did sport. It would depend on what you put on it. I am saying that the revenue to pay for it would not go up by a dollar.

**Mrs BRONWYN BISHOP**—What if it was something that was not expensive to run—maybe Channel 10 favourites—and it was fairly easy to put to air? We were discussing what advertisements go on metropolitan television versus ads that go to air somewhere like Wollongong or rural areas. What if it were a channel that could take cheaper advertising, where small business could advertise, and a whole lot of people who now do not advertise on television because there is no way they can afford it started to look at it as a viable medium?

**Mr Falloon**—I think you will find that most of those are now advertising on the internet. When I look at television, it is not just multichannelling; we face all the new technologies and all the competition. Technology has almost moved past this. If you believe what Telstra is saying—that internet TV will be on our doorstep in the next one, two or three years—then you are going to have multiplicities of those channels hitting your TV screen where local advertisers are spending right now. Again, it comes to what you want out of your broadcasting policy, what you can afford and how you set your priorities in a world that is going to involve changing technology. The one thing I would stress as an overrider of that is that you should not let technology drive the decision process; you have to drive the decision process and use technology the other way around. There is nothing worse than letting technology be the driver. We will send the country broke.

**Mrs BRONWYN BISHOP**—With interactivity, if people want information about the picture they are watching, can you do that staying with just a single channel? You do not need multichannelling to do that?

**Mr Falloon**—No.



**Mrs BRONWYN BISHOP**—Great. As to demographic indicators, do we know who is taking up the new HD? Do we know who is buying those screens and boxes?

**Ms Herd**—We do some work through Digital Broadcasting Australia. For example, we had an early adopters club where we actually tracked what people were buying and all of those sorts of things. Ms Wines, are there other specific figures from DBA that canvass those sorts of issues?

**Ms Wines**—Yes, but they are representative of a very small group of people.

**Ms Herd**—It is actually very difficult because we do not have a direct relationship with our viewers in terms of the way pay TV does. They put the box into the home and we certainly do not do that. Our viewers go out and buy their own boxes from retailers. So it is hard to gather that kind of information.

**Mrs BRONWYN BISHOP**—Presumably the retailers would know who is buying that product. We were discussing it and Jackie was making the point about the ageing of the population. Maybe people want better images when it is harder to see, literally.

**Mr Falloon**—If you look not just at high definition but also at pay television, it is clear that a certain percentage of the population can afford both pay TV and high definition at the moment, I would think. That is completely off the top of my head but I suspect that is where it is at. That is why this whole policy is about how we can make digital TV affordable to all Australians as we go through this transition phase of technology. And, I repeat, it will keep coming at us.

**CHAIR**—I think we probably need to leave it there. Just to wrap up, you did sort of cast aspersions on the quality of subscription television. If that is the case, how come they have 50 per cent of the viewing audience in the households that they are in vis-a-vis pay TV and free-to-air?

**Mr Falloon**—The aspersions I cast were more on the nature of it in that most of the content is rerun content from other countries, particularly the US. And I was putting the aspersions in the context of what we want as an Australian country developing local content and growing a broadcast policy. Those were the aspersions. The reasons why they have that viewership, I suspect, is that there are lots of channels—there are 100 or 200 channels.

**Ms Herd**—And the viewership is not that high in prime time.

**Mr Falloon**—Yes.

**Mr GARRETT**—I have a question about electronic program guides. We have heard from the networks that there is a trial under way.

**Ms Herd**—The ABC trial, yes.

**Mr GARRETT**—Can you give us any more details about the timing and tell us where it is going?

**Ms Herd**—We have been providing information to that trial for some time. It is being broadcast on the ABC at the moment on interactive boxes. We will continue to participate in that. We have our own video EPG which is not interactive but it is a program guide.

**Mr GARRETT**—When will the trial finish, do you know?

**Ms Herd**—I do not think we can put a date on that at the moment. But it is actually up and running; it is available if you have the right box in your home to watch it. So in that respect it is publicly available.

**CHAIR**—Thank you very much Nick, Annabelle and Marie. Also, thank you very much, Annabelle and Marie in particular, for the tour of your facilities.

**Mr Falloon**—I hope it was helpful.

**Mrs BRONWYN BISHOP**—Yes, it really was.

**CHAIR**—Yes, it was very good, as was the demonstration of an AFL game that was actually produced in HD and then broadcast in HD at the time. We saw a cached version of that as well, in terms of the capability, on an analog set as well as the version on an HD set.

**Mr Falloon**—It looks good, doesn't it?

**CHAIR**—Yes, it did. Thank you very much.

[3.10 pm]

**CHAPMAN, Ms Creina, Director, Digital Services and Regulatory Affairs, Nine Network Australia**

**SEVIOR, Mr Charles Francis, Technology Development Manager, Nine Network Australia**

**CHAIR**—Although the committee does not require you to give evidence under oath, I should advise you that these proceedings are formal proceedings of the parliament. Consequently, they warrant the same respect as the proceedings of the House itself. It is customary to remind witnesses that giving false and misleading evidence is a serious matter and may be regarded as a contempt of parliament. We have your submission. Everyone here has read it. Would you like to make some opening remarks?

**Ms Chapman**—Thank you for the opportunity to appear before the committee. Given that time is short, I will not go into too much detail. I will assume that you have looked at our submission. Many of the comments I would like to make to start off with are quite similar to the comments Nick made on behalf of the Ten Network. We would like to emphasise that we think the quality of Australian free-to-air television is very good in Australia. The process of moving to digital is an evolutionary process, not a revolution. When the parliament put the framework in place, it was looking at creating a system where people did not have to make a choice immediately, or did not have to make a particular choice, about how they would change to digital. They would either be able to wait or take a cheap or expensive option at the time of their choosing. It is interesting to note, for example, in relation to high definition equipment, that when digital first started, set-top boxes cost about \$699 for the cheapest box. Now, if you buy a reasonable sized screen, you will probably have it thrown in for free. You can now get one as cheap as \$299 just on its own—or for even less, depending on what sort of deal you do. I think \$79 is about as low as the standard definition boxes are at the moment, as well. So prices have decreased, but viewers still do not have to make a choice if they do not want to. We are not in a pay TV situation where we are controlling the situation. It has been designed to be viewer controlled, and that is where we are at.

I would like to make a couple of points in relation to high definition and mandating tuners. The Nine Network has always been a very strong supporter of high definition in the sense that it is the highest quality technically available at the moment to be transmitted. The regime was put in place with a mandate for us to provide high definition programming—not to force any viewer to have to receive it; viewers have always had the option of receiving a standard definition or a high definition signal if they choose—but to seed the market and to ensure that there was some high definition programming in the market if viewers want it. As it has turned out, that is exactly what has happened. Digital Broadcasting Australia estimates that about a third of the equipment sold in the Australian market at the moment is high definition. So the amount of programming is increasing over time. Constantly, more and more programming is coming in from overseas in high definition and we are producing more and more in high definition. It is inevitable. I think that is the issue.

There has been a lot of talk about the United Kingdom. Charles has recently returned from the United Kingdom. I understand that both BSkyB and the BBC are talking about a day when they will stop standard definition as a transmission. When that will happen is yet to be seen, but it will happen, it appears. Secondly, following on from the previous evidence, the concept of mandating tuners is very much a phased-in concept. Even if you mandated some sort of digital tuner chip, you would still have analog equipment available in the market. The way the Americans have approached it is to say, 'Start with the bigger sets, bigger screens and mandate that as digital, but you still have analog equipment available at the time.' So it is not a fast approach. It would happen over a period of time. We certainly think that would be a positive step towards switch-off.

**CHAIR**—In terms of the HD quota, do you think there is any requirement to increase that quota every year on a gradual scale or do you think that that will just naturally come with no forcing from the government?

**Ms Chapman**—I think it is naturally coming now. A huge amount of our programming available from overseas is in high definition. All of our films, most of our major series—and equally we are producing more Australian content—and all of our drama is in high definition and, as time goes on, it naturally rolls out. I think Channel 10 referred to the fact that the equipment gradually turns over and it becomes high definition, so naturally it increases.

**CHAIR**—Would you like to see some mandating of the increase to HD content, say, from 1,000 hours to 2,000 hours to 4,000 hours?

**Ms Chapman**—I think it will happen naturally anyway. It is naturally increasing now.

**Mr Sevier**—I think we will see a snowballing effect as the world, particularly Europe, comes on board. A lot of our cultural programming comes from European based sources. They are very strong now in Europe about HD production. They are having troubles, as Nick alluded to earlier, about transmitting it in England terrestrially because they have locked up their spectrum so much with the multichannelling approach. But there is no doubt that the production there is all going high definition, and the BBC have announced that they expect most of their programming to be in HD by 2008 and all of their programming to be in HD by 2010. Whenever the Nine Network puts in new studios or production facilities, they are high definition. There is no real economic reason not to go high definition in those new facilities. It has a snowballing effect.

**CHAIR**—You seem to be very anti multichannelling. Can you get to the kernel? What are your key reasons for finding multichannelling not to be in your network's best interests?

**Ms Chapman**—I will deal with free-to-air multichannelling first. If we create more channels on top of the channels that we are creating now, as Nick explained, we see no basis on which the advertising dollar that comes into the network would increase. It is important to note that, as a mature industry, we are not going to gain more viewers, because we have the whole of the population anyway, minus a very small proportion. It is very difficult to see how the number of minutes of watching free-to-air television would increase. It is fairly high, and it has been slowly starting to decrease over time anyway, given increased competition from pay TV, internet use and games et cetera.

So, without seeing the advertising power growing in any way—even if we take the cheapest channel we could possibly think of, we would need to take revenue from our main channel to apply to that second channel or the third channel or whatever—there will be a decrease in quality across the board. That will necessarily mean that the quality of the program, particularly expensive programs we are producing like drama, will decrease with respect to the amount of money that we spend on it.

**CHAIR**—That brings us to that sort of ethereal quality argument: what is quality? I can say this now that Channel 10 witnesses are no longer with us: given the recent controversy about *Big Brother* and the quality of what is on free-to-air, could that fourth free-to-air channel—which has been suggested among people who I am aware of—be directed to a G-rated channel to get more diversity into that area? Do you have a view on that in terms of putting quality—

**Ms Chapman**—G-rated as in family type programs?

**CHAIR**—You do not have it after 8.30 pm; you then have the M and then at 9.30 pm the M-plus. Then you get into the area where you still have people watching television but they want more family orientated or the old-fashioned adult movies—a mature movie like *A Beautiful Mind* or something that does not have—

**Ms Chapman**—Firstly, I would never advocate that people should have to pay for it. But, largely, that is the service that is available on a pay system now. A person can choose to pay for additional programming over the free programming that has been chosen by a network as suitable for everybody. Secondly, it is a case of being able to source that programming and pay for it with an advertising dollar which has been taken from the primary service. So, yes, in an ideal world it would be wonderful. In an ideal world, in similar way to the Ten Network we would love to be able to provide a second channel of general programming and a third channel which is all news and current affairs, but it does need to be paid for somehow.

**Mrs BRONWYN BISHOP**—You were suggesting a fourth free-to-air channel.

**Ms Chapman**—As opposed to a multichannel.

**Mrs BRONWYN BISHOP**—Then you have answered your own question. Where is the advertising dollar coming from?

**Ms Chapman**—It is no different. If it is operated by a different licensee then it is going to be the same issue. I realise you are talking about a completely new licensee. That is also a very attractive proposition to put—that we can have a general family programming channel or even one that is 100 per cent Australian programming. I do not want to be cynical, but I would suggest that that is a very attractive proposition to start off with but the commercial realities of competition will naturally take everybody to the middle ground, where they will need to compete on the most popular programming. They will need to compete on American type context and on all types of programming, which is already done.

**CHAIR**—What about taking that fourth available channel to datacasting?

**Ms Chapman**—In effect, that is the situation that we have now. The additional spectrum has been made available for datacasting, and there really has not been any interest in providing additional services which are not commercial broadcasting services.

**CHAIR**—Do you share Nick Falloon's view on datacasting?

**Ms Chapman**—Yes, very much so. I would also endorse Mr Falloon's comments about the fact that there is a huge amount of technology on the way and probably the vast majority of that will be subscription based.

**Mr TICEHURST**—Can we come back to the issue of mandating. At the moment, what is the lowest-cost analog set?

**Mrs BRONWYN BISHOP**—\$190.

**Mr TICEHURST**—What is the lowest-cost digital set?

**Ms Chapman**—Certainly, you could buy a standard definition straightforward digital converter for \$79 which you could add to your analog set.

**Mr TICEHURST**—What is the lowest-cost digital set?

**CHAIR**—\$2,500, I think.

**Mrs BRONWYN BISHOP**—No, about \$1,500.

**Mr TICEHURST**—What I am getting at is that it depends upon what set you add the \$10 chip onto. If you have a mandate for digital, you are starting with the lowest-cost digital set essentially, aren't you? What I am saying is that there is a big gap between the price of that set and the price of a normal analog set.

**Ms Chapman**—But with the American system you start from the top.

**Mr Seviar**—You are not taking about a 48-centimetre TV set manufactured in high volume. The sets that have integrated tuners in them now, in our very early market, are high-end TV sets—flat panel display sets and 68-centimetre sets, for example. They are not inexpensive sets.

**Mr TICEHURST**—Nobody has mentioned what time frame they are looking at. I think eventually content and quality is going to drive it anyway. It is a bit like what you were saying about what you are actually broadcasting: in the end it is much better to have a standard of good quality and then drop it back for analog and standard definition when you want to transmit it. What is the impact of pay TV on free-to-air TV? Has that made much of an impact on your revenue?

**Ms Chapman**—It has had two impacts on us. At the moment the pay TV advertising revenue is approximately \$100 million a year, which sounds small. It is certainly their secondary revenue stream—the majority of their revenue certainly comes from subscriptions—but it has taken away quite a few minutes in viewing, particularly during the day, when you can have any movie

available whatever its classification. It is a different type of programming that is available. So it has had a slight impact in relation to revenue and it has had an impact in relation to viewing.

**Mr TICEHURST**—The comment that it is a monopoly is quite right. In my area I can only get Foxtel, and I think that paying 60 or 70 bucks a month when you are hardly ever there is not a very good value proposition. I must agree that free-to-air TV in Australia is very good. It is certainly better than I have seen in the UK or the USA, so I think the industry has a lot to be proud of in that sense. What is your view on ABC2 TV?

**Ms Chapman**—When the digital regime was put in place in 2000, the parliament had quite a clear view that it was only going to give the ABC a limited ability to do multichannelling and it set quite strict rules in relation to that. The ABC is certainly not complying with those rules; there is quite a bit of movement around the edges. I saw a promo last night on ABC1 for a documentary on The Clash on ABC2 on Saturday night. That is clearly not within the rules on what is permitted. I think that it certainly has a place for them to do multichannelling, but we really have to question whether providing full commercial services which further split audiences is necessarily within the structure of the digital regime as it has been set.

**Mr TICEHURST**—I must say that I do have some issues with the whole idea of the ABC. They are essentially now running three TV stations, about five radio stations plus the internet broadcasting, which is all funded by taxpayers. I think it is a bit hard to justify. But that is another issue. They are always coming to us for more money to run the ABC, but they also want to be a driver in digital radio. If you are not worrying about commercial realities you can do all those sorts of things. I was just wondering whether you see much impact on—

**Ms Chapman**—It is not our place as a commercial network to comment on how the ABC spends their resources, but I would imagine they have a very similar issue to us—that as soon as you start producing a second channel, you must necessarily be taking some resources away from your primary channel. It is not as big an issue for them, given that they are not splitting their advertising revenue. That is why it is a very different issue for them.

**Mr GARRETT**—We asked Mr Falloon this question but we did not get into any detail. If datacasting is not going to happen, which seems to be a pretty strong consensus, either technologically or in policy terms, what will we do with the spectrum that has been set aside for datacasting?

**Ms Chapman**—There is not a huge amount of spectrum. I think it is two channels in each area.

**Mr Sevier**—It is two channels in the metropolitan areas.

**Ms Chapman**—We are of the view that it should not be used for subscription services. It is there in the broadcasting services band. It should be reserved for free services. It may be that that could be where digital radio is operated. It could be for other free services that come further down the track. I do not think the jury is completely in yet as to whether additional spectrum may be needed by the current broadcasters. To the extent that there are black spots in a number of parts of Australia, there are probably translators that may be needed in the future and they

could be used for localised services, but I certainly do not think that that valuable spectrum should be used to commit to the subscription services.

**Mr GARRETT**—I am not across the technical issues sufficiently to know, but aren't the black spots really a function of the translation end of the delivery, as opposed to the spectrum end of the delivery?

**Mr Sevier**—It is all to do with spectrum. I support Creina's comments in that, if you sell all the spectrum now and do not leave any slack for contingencies, you will end up with a very locked up and congested band in the same way that the British are finding. You have had various discussions today and earlier hearings about MPEG4 and mobile TV, and a lot of other things are coming. If you think that you will need some transition capability in the future—and it could be five years or 10 years from now—selling off all the spectrum now and not having any capacity within the broadcast services band would be a little dangerous.

**Mr GARRETT**—I have a question on electronic program guides. I have been asking about the trial that we understand you have been undertaking. The Ten Network has just said to us that it is available to people, but I am not sure in what way.

**Ms Chapman**—Is this the electronic program guide on the ABC that the ABC are trialling at the moment?

**CHAIR**—I think it is Broadcast Australia. We had a demonstration of it this morning out at Panasonic. You need a set-top box which is MHP enabled and another remote control to flip down the datacasting.

**Ms Chapman**—There are a number of program guides. Each of the networks is running their own video program guide. We are running a program guide. Channel 44, which is part of the datacasting trial operated by Broadcast Australia, is running a program guide which we provide our listings information for. That is ongoing. I think the one that you were referring to is the ABC's. The ABC are doing some testing at the moment on running an interactive guide using the MHP technology. That application is being tested and is not commercially available as yet.

**Mr GARRETT**—Is there a technologically accessible electronic program guide that can be acted on now by consumers?

**Ms Chapman**—Certainly the program guide on each one of the networks is accessible by all equipment.

**Mr Sevier**—We have channel 90 for high definition and channel 99 is our video program guide. That has information about what is on today and what is coming up over the next week. It is comprehensive information. It is equivalent to what you would get in a newspaper or a magazine. The other networks have similar program guides. As Creina mentioned, the Sydney trial of channel 44 has a program guide that combines the five networks.

**Mr GARRETT**—When that trial is finished, what stage will we be at? I am referring to the channel 44 trial.



**Mr Sevior**—There is no real indication of what will happen after the current datacasting trial that Broadcast Australia are operating is finished.

**Mr HAYES**—You obviously have some concerns about ABC2 and their limited use of multichannelling, but does that indicate that there is a level of demand out there and content that could be looked at? I raised with the Ten Network whether multichannelling was feasible on a part-time basis. I am particularly thinking in relation to sports, where some of the commercial TV networks may have a right on certain sports. I have to say that I really do like to watch my cricket live and right through if possible. In terms of multichannelling, could an option be looked at where you could have access to broadcasting and then—uninterrupted through news or other alternatives that occur—continue to broadcast live sport; that is, if you owned the rights to it?

**Ms Chapman**—To go back to the ABC issue, I certainly acknowledge that additional programming is an incentive for some people to move to digital. I think that is what Mr Falloon was expressing as well. But we again come back to the questions of how you pay for it, how it will affect your free-to-air services generally and whether you really do want to go down a system which denigrates the main service.

To answer the second part of the question in relation to sport, I would say that it is very much the same in the sense that it will cost us more to purchase additional rights to sport. There is an issue of half an hour or 40 minutes in relation to the cricket over news time but, generally speaking, we show what we purchase in relation to rights. So it is no advantage to us to spend money on sports rights that we are not then going to show. Again, if we had to spend more money on sports rights to show live on a second channel, that would be money that would come from other programming.

**Mr HAYES**—Going back to high definition, are there additional production costs associated with high definition or is that just going to become the standard? I notice you say that you do not see mandating as being necessary to bring about high definition.

**Ms Chapman**—Charles might talk about this. Originally, when we purchased from the houses in the United States, it was costing us more per episode for something like *CSI* in high definition, but that is decreasing and I think local production is decreasing as well.

**Mr Sevior**—There is no doubt that high definition is more expensive to produce. The equipment is not yet installed throughout our entire production fabric, and that extends way beyond Channel 9 to people who contribute to Channel 9. We have a lot of freelance cameramen and freelance production companies. All of those companies would have to ultimately convert to high definition to provide that. And that is particularly true in relation to sport, which is an area that the Australian public would like to get to. I am sure we will get there sooner or later, but there will be a transition period which we are working through at the moment.

**Mrs BRONWYN BISHOP**—I will just go back to the ABC multichannelling. The ABC obviously does not have the same problem as commercial free-to-air because it is not run by advertising; it is run by the taxpayer. We got rid of the fee that used to pay for it to run, but it still comes out of the general revenue. So that argument probably does not apply there. If the ABC is running more than one channel, and it does it for specialised interests, it ought not to be a problem. For instance, I would dearly like to see the ABC run far more of the parliament than

just question time, because I tend to think that people get the wrong impression by watching question time. A lot more goes on in the parliament than just the argy-bargy of question time. If it were to run a second channel, it could use it like C-SPAN or the BBC's parliamentary channel, or dedicate it to certain concerts, productions or whatever.

**Ms Chapman**—That is exactly what the regime has been designed to do. The ABC were given the ability to do multichannelling for specific types of programming and they are listed. Parliamentary broadcasts are specifically listed, as are arts programming and education and children's programming.

**Mrs BRONWYN BISHOP**—You do not have a problem with that?

**Ms Chapman**—No, and that is exactly how the regime was set up. It was set up to enable ABC and SBS to provide complementary additional programming which was not just more commercial programming that the commercial networks would be providing. That is what is there. What I was addressing before was the question of going beyond those rules. I was probably jumping the gun. I know there have been media reports saying that we have had some issues with them going beyond the rules. That is just me, not—

**Mrs BRONWYN BISHOP**—It is a question of the charter and adherence to the charter, isn't it?

**Ms Chapman**—Also, the Broadcasting Services Act specifically outlines what multichannels they can do.

**CHAIR**—You do not see the ABC and SBS beefing up their multichannelling capabilities as being a driver for the take-up of digital set-top boxes and receivers and, in relation to an end date, somehow getting the receivers high enough to a point where you can switch off analog?

**Ms Chapman**—Those additional services will certainly encourage a number of people to move to digital, there is no doubt about that. It is probably fairly brave to think that it would be enough to drive you to a switch-off position.

**Mrs BRONWYN BISHOP**—It would have to be massive.

**Ms Chapman**—As everybody around the world is finding, the ability to find a commercial solution to 100 per cent conversion is extremely difficult.

**Mrs BRONWYN BISHOP**—So do you agree with the comments of Mr Falloon that you cannot set a switch-off date?

**Ms Chapman**—Certainly not at this stage, no.

**Mrs BRONWYN BISHOP**—It is certainly not 2008?

**Ms Chapman**—No. Listening to the previous discussions, I think it is also important to note that we need to talk about a starting point of switch-off but not necessarily an end date. We do not have to have a date where it switches off all around Australia. If you look at the United

Kingdom, they have switched off two villages in Wales—I think it is 45 households—and it is a starting point. Again, the switch-off can be phased in a similar way to the digital start-up.

**Mrs BRONWYN BISHOP**—Just to confirm, are you also broadcasting the same mix as Channel 10—that is, analog, standard and high definition?

**Ms Chapman**—We are required to broadcast all three.

**Mrs BRONWYN BISHOP**—Are you happy to do that indefinitely, as well?

**Ms Chapman**—In an ideal world, we would like not to be broadcasting the standard definition signal. With time, a huge amount of the equipment will be able to take the standard definition and the high definition signal, but there is a lot of standard definition equipment in the market.

**Mrs BRONWYN BISHOP**—Was that at the receiving end?

**Ms Chapman**—Yes. It was unrealistic to think that we could switch off a standard definition signal and deprive those people. We were stuck with this triple-cast back then, and now we are with it. It is a bit hard to go back now.

**Mrs BRONWYN BISHOP**—And now you can live with it?

**Ms Chapman**—Yes. We cannot expect to make obsolete all this standard definition equipment that so many people now have.

**CHAIR**—A lot of your regional broadcasters, such as WIN, do find transmitting in analog a bit onerous. You have 30-odd transmission towers, and they are running something like 200.

**Mr Seviar**—They have a much greater problem. Also, they are using a service company to provide their services. They are basically paying on a per hour, per use, basis. They have a far greater area to cover than we do in the metropolitan markets.

**CHAIR**—Do you think they would have the same ‘indefinite’ attitude to the switch-off?

**Mr Seviar**—We do not have an indefinite attitude. We certainly see that switch-off will happen at some stage in the future.

**CHAIR**—But you cannot tell us when that will be—this decade, next decade or two decades from now?

**Mr Seviar**—It is a policy issue. Did anyone force consumers to buy DVD players? Consumers have adopted DVD players through natural attraction to the quality.

**CHAIR**—At what point of market penetration could you switch off? Would it be with 20 per cent, 15 per cent or 10 per cent remaining? The UK at the moment, with 80 per cent penetration, still has not switched off.

**Mr Seviar**—I do not think a television network can provide that answer. I think you need to look at policy and at what is happening around the world. Hopefully by that stage there may be some real evidence coming out of the US, and the UK may have committed to some definite dates. There is one piece of evidence of switch-off from Berlin, in Germany. They switched off analog television over a one-year period.

**CHAIR**—And they had vouchers for the low-income households.

**Mr Seviar**—At the very end, yes. But the real issue there is that it is such a different consumption market in that only about 10 to 20 per cent of the consumers actually received their television over the air. The rest of them got it from cable or satellite. Australia is such a different country. We are geographically sparse and all consumers have some form of reception over the air. A percentage also has pay television. The mix in Australia is so favoured towards the terrestrial reception that it is a little dangerous to take examples such as Berlin and say, 'Let's name a date and see what happens.'

**CHAIR**—Do you see any other barriers or problems with mandating digital television tuners and then waiting?

**Mr Seviar**—It is part of a process. We certainly believe that the mandating digital tuners will make things simpler for consumers. That is really the focus.

**CHAIR**—Do we mandate SD or HD?

**Mr Seviar**—As we put in our submission, we mandate HD capable receivers. In lower cost SD televisions—the ones that you referred to at the really cheap end of the market—you can get away with just having an SD chip. I would also like to point out that the difference in the cost today of production of an SD or an HD capable tuner is very small. It is probably only a matter of materials cost of \$20 to \$50. It is not big.

**Mrs BRONWYN BISHOP**—If that is the case, why is anybody making television sets? They are making them in large numbers and flooding the market, and they are very appealing in terms of price. You can buy a 68-centimetre television for less than \$500.

**Mr Seviar**—It is because it is a world market. Producing a digital product requires attention to detail that perhaps is not necessary with an analog product.

**Ms Chapman**—Your point is that the differential between the cost of standard definition and high definition is very small as opposed to the differential between digital and analog.

**Mr TICEHURST**—Was that for the tuner or the whole set?

**Mr Seviar**—No, for the tuner component. The component that you would add, which is a very small chip, would be integrated into a television receiver. The difference between it being standard definition or high definition is small.

**Mrs BRONWYN BISHOP**—If you mandated this in all new sets coming into the market, then that whole cheap television sector of the market would disappear.

**Mr Sevier**—That is why we are talking about a phased approach.

**Ms Chapman**—It must be a phased-in approach. It must be done carefully. It would not be reasonable to expect everybody to immediately purchase digital. You would have to do it over a period of time. Just to finish off on that quickly, it is important to note that a high definition capable receiver is also capable of receiving standard definition.

**Mrs BRONWYN BISHOP**—But they are not cheap.

**CHAIR**—I have one last question on Freeview, in the United Kingdom, and how we can learn from that here in Australia.

**Ms Chapman**—It is a very different system. The Freeview model was set up under quite a different regime. It is basically funded and marketed by the BBC. It was a largely defensive strategy by the commercial networks which really did not have any choice but to go onto the platform. I also point out that the number of additional channels were started on a pay platform and moved onto a free platform. They had largely been paid for under a subscription platform anyway. It certainly indicates that more programming is attractive but, as a funding model, there is an inability to translate into Australia. As a neat comment, it is very difficult to translate into an Australian environment.

**CHAIR**—So, with appropriate government funding, ABC or SBS would not be able to drive something similar?

**Ms Chapman**—The figure for funding for the BBC is absolutely enormous. Certainly ABS and SBS have a role to play in their multichannelling, in increasing the number of subscribers, but it is not the same as a Freeview type model. The BSkyB involvement was very important.

**CHAIR**—Thank you very much.

**Proceedings suspended from 3.46 pm to 3.59 pm**

**HENDERSON, Mr Ross, Director, Panasonic AVC Networks Australia Pty Ltd**

**NAYLOR, Mr Rick Lynne, Digital Media Support Manager, Panasonic AVC Networks Australia Pty Ltd**

**CHAIR**—Welcome. Although the committee does not require you to give evidence under oath, I should advise you that these hearings are formal proceedings of the parliament and, consequently, they warrant the same respect as proceedings of the House itself. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as a contempt of parliament.

Thank you very much for the wonderful demonstration that you gave the committee this morning in your \$200,000 testing and conformance centre. It certainly crystallised a few viewing issues for the committee. We had a discussion at that time and we will try in this environment to put on the *Hansard* record a few things that came out of that meeting. I invite you to make some introductory remarks.

**Mr Henderson**—Firstly, thank you very much for coming out to the facility this morning and for the opportunity to present here. Panasonic AVC Networks was originally known in Australia as Matsushita Electric Industrial Company. We have been building television sets in Australia since 1969. We have produced in excess of two million TV sets in Australia.

There is a significant global change taking place right now in terms of television product. There are changes in screen technology, broadcast technology, product design, source of product, distribution and technology convergence. There is a huge amount of choice for consumers. The digital television or the set-top box is an offering that competes with many other offerings in the converging information, communication and entertainment product industries. Digital terrestrial television is a substitute for analog and all of these other technologies. Therefore, we see that there must be a compelling reason for consumers to spend money on digital television.

Our future business viability is planned around digital television. We have had digital product in the marketplace from the early days and our future is planned around digital television being successful. Our submission is based on what we believe is needed to make it successful and to accelerate the growth rate from where we are now. We consider that what is happening in Australia right now is an embryonic phase. We need to move from that to a growth phase. To do that, we think that there are a number of things that need to be done and need to be considered. Amongst those are consumer issues. We demonstrated some of those consumer issues this morning.

We believe that, when high definition is viewed alongside standard definition, the difference between the two is quite clearly visible. We believe that, for the majority of people, digital is providing a good experience. We are located in Penrith, a fringe reception area where people pick up their analog signal for ABC out of Wollongong. If you take that signal from Sydney, digital presents you with a very good experience—if it works properly.

There are issues, as we demonstrated this morning, such as antenna. This is an end-to-end business. It goes from broadcast through the antenna that sits on the roof, the cabling and the connectors through to a receiving device. The system itself is only as good as the weakest component. There are, unfortunately, some products in the marketplace that have been installed which work quite well for an analog environment but are not necessarily acceptable for a digital environment.

**Mrs BRONWYN BISHOP**—Like what?

**Mr Henderson**—Like the antenna itself. We will give you the example that we demonstrated this morning. Antennas that were designed maybe 15 or 20 years ago for analog actually roll off at Channel 11. The typical installation of up to five years ago has an antenna that rolls off at Channel 11. What we mean by that is that ABC digital is on Channel 12 and, as we demonstrated this morning, if you use a typical installation of, say, five years ago, you cannot receive the ABC. In fact, it causes problems on Channel 10. But, when we change that to a digital antenna, and that is the only change we make, it works fine. We believe the majority of people have a good experience from digital but there are a number of people who are having a bad experience with digital. The inquiries we get about product at our call centres show us that more than an acceptable level of people are having difficulties with the total system. Unfortunately, we have only looked at two areas so far: Penrith and the Central Coast. If we looked at all areas it would take considerable time to understand exactly what people are seeing.

**CHAIR**—That was a very interesting point this morning about white noise. A number of the first submissions the committee received were from people who were very unsatisfied with the digital product. You demonstrated the issue about white noise this morning. That would actually answer a lot of those submissions we received in that it is not a product problem or a broadcast signal strength problem; it is simply a Mixmaster in the room next door that is causing the signal to go.

**Mr Henderson**—Yes. The broadcasters are required to deliver a level of signal across the earth. We as manufacturers make product to take the signal from the wall plate. What you have to look at, and what we believe is a crucial factor right now, is that part in between.

**Mrs BRONWYN BISHOP**—Are you talking about antennas?

**Mr Henderson**—Antennas and cable connectors.

**Mrs BRONWYN BISHOP**—My antenna has a power booster on it to get a decent analog signal. What would it mean if I decided I wanted digital?

**Mr Henderson**—It could mean that it is okay, but we have seen installations where it is still not okay. We related a story about a Central Coast installation that we looked at just last week. Rick went to it. We had a house about five years old with a new television, a new set-top box and a new antenna installation, yet the signal strength at the wall plate was 35 db the way we measure it.

**Mrs BRONWYN BISHOP**—I do not understand that.

**Mr Henderson**—In fact in the UK, they recommend 45 db as a minimum at the wall plate for digital television. In an analog world, I think the recommended level is 65 db. In some instances, we are getting very low readings. The point about all of this is that we cannot quantify how big the problem is. From our point of view, while there are some very good things happening in digital there are also some very negative comments being made in terms of the performance of digital and the performance of set-top boxes. We have quite a deal of product returned to us. Of the product that is returned there is less than a two per cent failure rate. When we get the product back and test it there is nothing wrong with our receiving product, yet it is not working in the market.

**Mrs BRONWYN BISHOP**—Are you saying that it is the antenna?

**CHAIR**—Or white noise?

**Mr Henderson**—In our installation, we can show that antennae could be one cause. I have a story: there is a recommended connector to use, and we used that connector. It uses a screw to make the termination on the wire. Our engineer used the screw, did the termination correctly and plugged it in—no signal. He took the screw out and put solder on the termination, plugged it back in, and it worked fine. There are issues. The difference between digital and analog is that in analog you had a gradual degrading of picture quality. In digital, it is working and then ‘bang’. It changes very quickly.

**Mrs BRONWYN BISHOP**—So you are saying that the ability of the solder to conduct is important.

**Mr Naylor**—It just makes a better connection.

**Mr Henderson**—Yes. The point to all of this is that there needs to be an understanding of these consumer issues so that we can do something about them and about the negative comments about digital broadcasting. The old saying is: ‘For everything that goes wrong, you get 10 people who are not going to move into the new technology. If it goes right, they are not going to worry.’ They have got analog today and it is fine. It is not giving them a problem.

**CHAIR**—That fits very well with a number of solutions we have heard.

**Mr HAYES**—I am really sorry I missed the inspection this morning. I would like to take the opportunity at some stage in the future to come out and visit you guys.

**Mr Henderson**—Certainly.

**Mr HAYES**—Do you sell any televisions with built-in digital tuners at the moment?

**Mr Henderson**—Yes.

**Mr HAYES**—What sort of proportion would that be of people buying set-top boxes?



**Mr Henderson**—Very small at this point in time. Let me see if I can quote some figures and give you an indication. There are about 1.5 million TV sets sold in Australia each year. In the last year, probably around 5,000 were integrated digital.

**Mr HAYES**—Were they a particular type of TV or high-end TV sets?

**Mr Henderson**—No, I think it is a perception issue that the industry needs to deal with. Set-top boxes came into the market as the first product. The reason for that is that we made a decision in this country to go with high definition and standard definition. But in terms of the development cycle of product, we were at a point where other markets had not developed the high definition chip sets and the high definition integrated products. What happened in Australia was: firstly, it was easier to develop a set-top box, so those products came into the market first. And they established themselves in the market. There were two companies up until just recently that had integrated digital TV sets. Our friends behind us will tell you in their presentation, I am sure, that they have now introduced integrated digital TVs into the Australian market, and they have seen considerable growth in that product. It is the evolution of technology. More integrated digital TV sets will come into the market and they will increase in volume. It is just that, in terms of worldwide and global demand, integrated digital TV sets were not available for the Australian market.

**Mr HAYES**—Is the cost likely to be affected by the number of digital TVs that are sold? Alternatively, as the networks have indicated to us, is this a matter of simply putting a chip in a TV? Is this going to be a minimal cost in terms of selling digital tuners?

**Mr Henderson**—In terms of mandating?

**Mr HAYES**—Yes.

**Mr Henderson**—The consumer is not going to see the cost in terms of the large screen. It depends on the time—how many years down the track we integrate digital into the TV sets. There are chip sets that will come onto the market early next year where you eliminate the tuner. The tuner is in the silicon itself rather than having a separate tuner. A tuner is probably the most expensive part of the TV set, apart from the display device, and there are chip sets being developed that will include the tuner. In terms of cost, yes, it will come down considerably.

When digital terrestrial broadcasting started in Australia it was being reported that high definition would cost consumers \$25,000. You can buy a high definition TV and set-top box for one-tenth of that today. It is coming down. We have product that is reducing by 30 per cent a year. I would expect that we will see standard definition integrated TV sets for under \$1,000 within 12 months. The average price of a TV set in this country is over \$1,000.

**CHAIR**—Given that only 5,000 integrated digital TVs were sold last year, we would still have to do a lot to reassure the consumer about its future proofing. That brings us to where we left off this morning on the testing and conformance centre. I did not get a chance to explore how that is going to work and who was going to pay for it. Can we do a bit of that now? What would be the size of it? How much would it cost? What would be government's contribution? Where would the other funds come from?

**Mr Henderson**—In terms of test and conformance, what we required as manufacturers was the ability to be able to do over-the-air downloads. Over-the-air downloads means that the software running the box—whether from a broadcaster perspective, a box manufacturer’s perspective or because of some requirement that may be legislated by governments in the way things work—enables us to download and modify the software in the box. It is exactly the same as Microsoft does almost on a daily basis with Windows; they are modifying that continually. We do not see that that will happen in this case.

We demonstrated a download this morning. It was not because of a broadcaster requirement or a set-top box requirement but simply a feature that may come about in energy saving. We were able to download and change the software in the box and make it do some things that it could not do before. To modify the behaviour of the box or to allow broadcasters to move forward with enhanced features it is necessary to have this over-the-air download facility.

**Mrs BRONWYN BISHOP**—So you need a box?

**Mr Henderson**—Once the industry comes to agreement we will be able to do it to boxes from that point on. We cannot do it to the boxes in the marketplace right now. We will be able to download software modifications to the box or the TV when it is integrated. An integrated digital TV simply takes the set-top box and puts it inside the TV. It is still an analog TV as well as a digital TV. It can receive analog and it can receive standard definition. Those companies that have high definition integrated TVs can receive high definition TV, standard definition TV and analog.

The ability to do this over-the-air download requires a certain amount of testing to be done. To do that it was envisaged that we would set up a testing and conformance centre where all product could be tested—similar to the way we have set up a lot of product. You do the over-the-air download in a trial and test to make sure that when you do this over-the-air download you are not having an impact on other people’s product.

Product is designed with a unique code. We know that our product has that code and reputable companies are going to know that their product has that code. In fact, we can address one single box in a fleet of our own boxes. However, in an open market where you have product that comes from reference design—and that will happen in an open market—we do not know what impact we will have on their box. We cannot know that without testing and conformance—that is, a place where all the boxes can be subjected to the download to ensure that it is not going to have an impact. If we were to have an impact, it simply means their product is faulty—not ours—and it goes black. So the consumer has another negative experience with digital because all of a sudden their box does not work and they did not do anything.

**Mrs BRONWYN BISHOP**—You have lost me. What you are saying is that if someone is having a bad experience with their box, you are able to somehow intervene to make their television set and/or their box work?

**Mr Henderson**—No, not at all.

**Mrs BRONWYN BISHOP**—What are you saying?

**Mr Henderson**—I will come back to the Microsoft experience. Microsoft will modify their software on a regular basis because they find a bug in the software or they can enhance a feature. They can make the software perform better.

**Mrs BRONWYN BISHOP**—They usually do that so that you have to change and they make a sale.

**Mr Henderson**—You might be right!

**CHAIR**—Currently there are 25 HD set-top boxes in the market, 70 SD boxes in the market, plus integrated TVs in the market. So this testing and conformance centre has to keep one of those models and all future models on the premises. It is going to be rather large eventually, isn't it?

**Mr Henderson**—We have 33 set-top boxes. We do not have one of every model, but we have 33. You saw that we were able to do a download without affecting any of those 33. But can we guarantee that we will not affect other people? We cannot guarantee their design. We can guarantee our design, but we cannot guarantee their design. We do not know until we try this. It needs to be tried to see what happens.

**CHAIR**—So the centre would have a big yellow sticker on it, like the big energy rating sticker, that says: 'This is a tested product. You can buy this product and you'll be sweet.'

**Mrs BRONWYN BISHOP**—So you can use this central operation with any set. Is that what you mean?

**CHAIR**—No, but it is future proofed. At the moment, with this \$79 Aldi loss leader—and forgive me if I am sledging Aldi; I do not know who is selling them, but there is a \$79 box out there—clearly, if there is any change in the broadcaster's signal or any change to do with the patterning or whatever, it is going to fall over pretty quick.

**Mrs BRONWYN BISHOP**—Do we know that or are you assuming that?

**CHAIR**—That was the advice.

**Mr Henderson**—I would not like to get into bringing up specific boxes, but we know that there was a box in the market that was designed for eight megahertz, and we use seven megahertz in this country.

**Mr Naylor**—So it cannot pick up SBS, in other words.

**Mr GARRETT**—I am interested in pursuing the idea of a performance centre. Would it not be the case that most of the major suppliers of this equipment would, in effect, be able to organise this by themselves—as other aspects of the industry do on a voluntary basis—if they firstly understood clearly what the technical requirements and legislative requirements for delivery were, which obviously are known? The only people who fall outside of that are those who are either ill-informed about those technical or legislative requirements or those who, alternatively, deliberately breach them. It seems to me to be a fairly big step to have government

come in and run a centre which is essentially trying to deal with what you see as outriders to the system when perhaps the industry itself—provided the guidance was there in terms of the technical and legislative requirements—would be able to do it.

**Mr Henderson**—You would be right if we had a mandatory standard to work with, but we do not.

**CHAIR**—So government only has to describe the Australian standard and that would be government's involvement in this system?

**Mr Henderson**—Yes. Certainly we have looked at it from a number of points of view and, since we have set up our own testing and conformance centre, it is capable of doing a number of things. We would still like to see some government involvement simply because we only have a supply industry; it is not a manufacturing and development industry. There is only one company that is developing and manufacturing product in this country. That is not being done for us. I have already invested money in my testing centre, so I am fine, but we need to create the market. Firstly, you need competition in the marketplace to grow the market, then I can build my business around that. I can simply test my product and I can be happy that it works, but it could cause negative impressions for the consumers because there is something I cannot control. Analog is black-and-white, but in digital and software we have a lot of grey areas. There are things that will occur in transmissions. Someone said to me the other day—and we use a DVB standard—‘If you have a DVB standard transmission then the box should pick it up.’ I will guarantee you that if I took a DVB transmission from the UK and tried to transmit it in Australia, there is no box that is going to pick it up, simply because they are eight megahertz and we are seven megahertz. There are differences. The thing about digital is that it allows you to make a lot of selections on the way in which you handle your transmission and the way boxes react. If you make a change, it can be up to interpretation what happens with that box.

**Mrs BRONWYN BISHOP**—Can I make an example? Suppose we are not talking about digital and set-top boxes but about kettles. Suppose we have an Australian standard for kettles—

**Mr Henderson**—Yes. And for cups of tea.

**Mrs BRONWYN BISHOP**—I am actually stealing this example from the European Community. They have a standard and it is, quite honestly, used as a non-tariff barrier to keep products out by saying, ‘This is the standard and you have varied from it, ergo it is not allowed to be imported.’ Is the situation you want to see—

**Mr Henderson**—No.

**Mrs BRONWYN BISHOP**—that boxes cannot come in if they do not meet a standard?

**Mr Henderson**—If they do not meet the standard then anything can happen and people will have an experience with digital that causes them to go back to analog.

**Mr Naylor**—The standard is not to use European farm-come-whatever protectionism policy, it is more to make sure that when a consumer buys something, they are getting what they paid for. We are coming from the consumer perspective, not from trying to protect an industry. There

is only one manufacturer left in this country, so there is not a lot left to protect anyway. We are coming from the perspective that we can still create a business in this country if people buy the product and they know it is going to work when they bring it home. Today, they can buy some products that do not work.

**Mrs BRONWYN BISHOP**—You are really saying that imported products are giving you a bad name.

**Mr Naylor**—They can come over in container loads—

**Mrs BRONWYN BISHOP**—And give you a bad name. People will say, ‘All products are the same so we will not have it, we will go back to the old technology.’

**Mr Naylor**—Indeed.

**Mr Henderson**—Let me just take a step back from the protection issue to make it quite clear. In the early 1980s, we had an effective level of protection of around 75 to 80 per cent on TVs and we could not make a profit. Today our effective level of protection is two to three per cent and up to last year we were profitable. We do not shy away from the competition. We want to see the market being allowed to grow so that then we can go out and practise our commercial business and take market from it. Without a market then our business cannot grow. What we are saying is that we believe this is necessary to allow the market to grow in a positive way.

**CHAIR**—If the Australian government described an Australian standard in terms of HD compatible, MHP or MPEG4 or whatever, then industry would come along, groups of manufacturers would get together and fund the centre and run it and the retailers would then do the advertising or does the government have to have more involvement there—for example, one bureaucrat at least on the premises certifying things for government?

**Mr TICEHURST**—There are too many bureaucrats now.

**Mr Henderson**—I think that it is just in the establishing of the test and conformance centre. We went from one stage where we had a vision of what the testing and conformance centre should be. We started out with about \$1.5 million and we then went to \$5.5 million. What I was showing this morning was a hardware industry test, a conformance area and a broadcast area, and those being brought together and working together to assure the product going into the marketplace.

**CHAIR**—So the cost to government to get this established—

**Mr Henderson**—Would be nil—or about \$700,000.

**CHAIR**—So it would be fifty-fifty on a \$1.5 million version?

**Mrs BRONWYN BISHOP**—Suppose it is a voluntary organisation—

**Mr TICEHURST**—Can I hear about another industry where these problems are being dealt with? If you take the electrical industry now, if you want to provide a three-pin plug in any

device, it has to meet a certain standard. You have to have a certain distance from the outside of the plug to the issue so you cannot put your fingers on it. If you have a device that you want to use to switch something either via a phone or whatever, you have got to get it certified. Standards Association Australia has set down certain parameters—

**Mrs BRONWYN BISHOP**—That is a safety check.

**Mr TICEHURST**—Yes, but there are testing authorities. You have another group called NATA, the National Association of Testing Authorities. They can test not just safety but also performance and conformance with a standard. So if you define what your standard is for the component—you talked about some broadcasting standard that the box needs to interpret—and if that is tested to a set of standards, it should work and it should be certified by the supplier. If you want to import something, first of all, you would have to make sure that it met with a standard and then it could be sold on the market. You are protecting the consumer so that the product offered will work in a normal situation. There should not be any cost to government. The cost is actually on the supplier, first of all, to have his particular device certified. I am sure that your TV sets will have to be certified so that they are suitable to operate on the mains and, if not, you cannot sell them.

**CHAIR**—So who funds NATA?

**Mr TICEHURST**—I am not sure who funds it but it is probably something to do with a standards association. There may be government funding, I do not know.

**Mrs BRONWYN BISHOP**—We have the same situation with automobiles. Motor vehicles can only be imported if they are in conformity. A whole lot of regulations are laid down as to precisely what is allowed and that is how, by changing that prescription, we stopped older second-hand Japanese cars being brought into the market and sold off cheaply. There are no two ways about it, it does act as a non-trade barrier if you want to keep competition out. But the one that Ken is talking about is not unlike the kettle—

**Mr Naylor**—That is right. It has to comply.

**Mr TICEHURST**—It has to comply with the same standard as the plug.

**CHAIR**—Thank you very much. My extreme thanks for the tour this morning. I recommend that other members of the committee, if they did not take up the offer this morning, arrange independently to have a look at that centre.

[4.34 pm]

**JENKINS, Mr Paul Robert, General Manager, Marketing, LG Electronics Australia Pty Ltd**

**LAVERTY, Mr Martin John, Government Counsel, Burson-Marsteller, acting for LG Electronics Australia Pty Ltd**

**CHAIR**—Welcome. Although the committee does not require you to give evidence under oath, I advise you that these hearings are formal proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House. It is customary to remind witnesses that giving false or misleading evidence is a serious matter and may be regarded as contempt of parliament.

**Mr TICEHURST**—In your submission you said, ‘One of the greatest assets of digital broadcasting is datacasting,’ but there is no clear definition for directional standards. What is your view on that?

**Mr Jenkins**—Obviously, we at LG believe in high definition television. In terms of datacasting, we would like to provide the highest possible quality. If datacasting is not detrimental to creating the highest quality then obviously that is our direction.

**Mr TICEHURST**—What sorts of applications for datacasting did you have in mind?

**Mr Laverty**—We are not a network provider; rather, we are the provider of the infrastructure needed to receive it. Our starting point is that if it can be transmitted without detriment to quality and the networks are able to provide that, they should do so.

**Mr TICEHURST**—I think it might have been the ABC who were saying that at one stage, provided the datacasting was related to the program source, which may have meant video images or whatever. But I know a company that has been using datacasting on analog TV for over 12 years now, providing a point-to-multipoint signal. I know there are a number of other commercial services that operate that way. It is not related to broadcasting; it is just another way of getting your signal out. With a lot of it now you can do the same thing over the internet. But in many cases it is convenient to have an interface, particularly if you are sending a signal to something that is, say, sensitive to lightning. If it is hooked into a power system or an antenna you are running a bit of a risk, but it is less of a risk than having a hardwire into it. There are applications for sending a signal over datacasting, which does not have anything to do with broadcasting as such. I saw that item in there and I wondered what you really thought about it. I have one other question on the cost of sets, which we did not ask the Panasonic guys. What would be the difference in cost between building a standard definition TV and a high definition TV?

**Mr Jenkins**—In terms of standard to high definition?

**Mr TICEHURST**—Yes.

**Mr Jenkins**—Several years ago LG made a conscious effort to develop high definition. From our point of view, there is negligible difference.

**Mr TICEHURST**—Because you would not make them. I think Ross said that a standard definition TV could be made for, say, \$1,000, and some of the cheapest high definition TVs may be in the order of double that at this stage.

**Mr Jenkins**—I was going to cover that in my short statement, but will cover it now. There are some quite interesting points that we need to clarify: the differences between analog and digital and the differences between technologies. What is quite often a source of confusion is not the difference between the costs of analog and digital because, as we have heard today, that is almost nil. What we are finding is that when people are looking at upgrading their television to a digital device, it is quite often a high-premium product—for example, a plasma product from LG's range. At present we do not have digital tuners in our contemporary or original equipment. On the differences in technology: we at LG have a digital product in a plasma which is equivalent in cost to an analog in plasma. There is no difference.

When some of our friends from Panasonic were saying that you have to upgrade to a 2½ thousand dollar product, they are talking from the CRT point of view. When we are discussing the technologies associated with our product, the difference from analog to digital is in the technology, not in the actual tuner chip.

**Mr TICEHURST**—The cost of the screen is the larger component of the cost, not the tuner and the guts behind it?

**Mr Jenkins**—Exactly.

**Mrs BRONWYN BISHOP**—Do you do LCD that is HD ready?

**Mr Jenkins**—It is the same principle in plasma and LCD.

**CHAIR**—Thank you very much, Paul and Martin. We have your opening statement, which the committee will accept as a supplementary submission. We will now go straight to questions. You and Panasonic are the key people at the supply end of the chain and the retail ability to meet a 2008 turn-off time. Anecdotally, we have heard broadcasters say, 'Oh we can't possibly turn it off'—perhaps not in those exact terms—but retailers say that they expect a bumper year in 2007. So the argument in terms of switch-off covers 180 degrees. Your submission talks about ways of mandating the inclusion of a digital receiver or a set-top box in the TV and the sorts of screen technologies that would be attached to that mandation, which would over time lead to a switch-off point. You also talk about how you think that switch-off point will drive sales. Is it going to be something that people are just not going to buy until they absolutely have to or will it get to a point where the majority of the population have changed over—say, 80 per cent of the population as in the UK. Do you have any solutions for the last 20 per cent?

**Mr Laverty**—As our starting point, we think the analog phase-out framework should stay in place. In our submission, we said we should have an open mind as to whether or not that date of 2008 is reasonable. We do not want to see consumers disadvantaged. We think that might be the case if we were rigid about 2008 being that switch-off date for analog. We then said that, from a



manufacture point of view and indeed, on our evidence, from a cost point of view by that time, we should consider the methods to ensure that digital televisions are sold from that 2008 date. Do we recommend that decision be mandated? There are a number of options by which you could pursue that. Yes, it could be mandated, or it could be something that the industry works towards, and we would see a role for government in supporting that type of dialogue.

If industry was to work as a collective, there would need to be a clear signal from government providing certainty around that 2008 proposal to cease the sale of analog televisions. From that, when do we then lead to the phase-out of analog? We have suggested that the date for that might be 2010. We are certainly not basing that on a particular set of evidence that is overwhelming but, rather, we think we need to provide a certainty to manufacturers, retailers and consumers so that we are not living in continuous uncertainty as to when that occurs. Our case is that, if we stick to the current timetable, there is that risk for a disadvantaged group of people who will still have—

**Mrs BRONWYN BISHOP**—Voters.

**Mr Lavery**—their analog TVs in place despite having access to very cheap set-top boxes. We have raised the prospect, as has occurred in Germany, of recognising that a small percentage of people may not be in a financial position to take care of that themselves. It is there as an option, but if we are open with our consumers about having some flexibility around 2008, we think there might be that opportunity to increase the opportunities for the disadvantaged.

**CHAIR**—One of your recommendations is that all large screen televisions—76 centimetres and above—should have digital tuners built in by January 2007. Is there any reason that could not be in 2006?

**Mr Jenkins**—In terms of the timing, one of the aspects we wanted to bring to this inquiry was to try to gain some certainty from a manufacturing point of view. In terms of integrating digital tuners into products, we have already begun. Like I mentioned at the start, we have made a conscious decision to put integrated high-definition tuners in our products. But to take full advantage of what digital television is all about, we have started with large screen sizes. In essence, we are working our way down. Our aim is to not necessarily say, ‘By 2006 we want to have this.’ We would like to start to develop with the government some certainty in terms of what is required and by what date. Then we can discuss, from a manufacturing point of view, what is actually achievable.

**CHAIR**—In the US, the government has mandated the tuners in the TV. In Australia, with 1.5 million TVs, I think about 60,000 are produced locally, so it is an import issue and the federal government has some control over imports. So we can sort of mandate: ‘You cannot import analog TVs unless they have also got compatible set-top boxes for post-switch-off.’ Or we could mandate that it is in the TV. Which do you think is the better way of going, given the number of analog TVs out there?

**Mr Lavery**—We have put forward the timetable of the FCC that the States have adopted, and we think that is worthy of consideration. It seems to be working effectively in the US, and it has applicability here.

**CHAIR**—What percentage of your television sales in this closing financial year were for televisions that are 76 centimetres and bigger?

**Mr Jenkins**—To give you an indication, in the previous evidence that was given, Panasonic quoted 5,000 units of digital televisions last year. LG alone will sell approximately tenfold that this year.

**CHAIR**—And last year?

**Mr Jenkins**—It is difficult to say, because we are talking in our current planning process. At present it is about 20 per cent of our business.

**CHAIR**—What is that numerically for last year?

**Mr Jenkins**—Unfortunately, I do not have that on hand.

**CHAIR**—Okay. I was just trying to get some idea of the curve. What about the year after next year? You go from 50,000 to—

**Mr Jenkins**—It is about 20 per cent this year, and we estimate that it will be about 40 to 50 per cent next year.

**CHAIR**—And then—

**Mr Jenkins**—This is where we come back to one of the issues that we wish to raise at the inquiry. From a certainty point of view at a manufacturing level, what we would like to discuss is the opportunity to have a certain date put in place so that we would then have certainty as to what products have to have digital tuners in at what particular time.

**CHAIR**—So you think we should also mandate DVD recorders, subscription set-top boxes and all that sort of kit?

**Mr Lavery**—What we are suggesting is that if we know that it is 2008 when analog televisions should not be sold, the manufacture and the factory process can be geared to provide those to the market. We have already given evidence that says that the cost difference between the provision of an analog and a digital set is negligible. It is, rather, around having the incentive within the marketplace, by way of standards or guidelines, to bring that to market and offer it.

**Mrs BRONWYN BISHOP**—That again becomes a non-tariff barrier to imports of cheap televisions that ordinary folks can buy at will. You are saying, ‘You are not allowed to sell them here.’ That is a very nice way of chopping out competition.

**Mr Lavery**—We have said to the inquiry that we see, by the time our phase-out date framework comes into play, that the provision of digital televisions will be on a par with buying an analog television now. Today, because digital televisions are predominantly premium televisions, large screens and plasmas, manufacture is moving into smaller television sets; so, as the phase-out occurs, there will be that sub-\$1,000 digital television available on the market.

**Mrs BRONWYN BISHOP**—There are plenty of televisions that are \$194 for a 51-centimetre-square unit, which people are buying.

**Mr Lavery**—These are the issues that were considered in the US before the FCC made its ruling.

**CHAIR**—So you see the sale of analog TVs ceasing by January 2008 and all televisions then being digital ready? You also see the sale of set-top boxes, at \$79 each, falling, but they will keep servicing the fleet of 17 million TVs that are out there—and you will have to sell 17 million of them by 2010 when you have switch-off?

**Mr Lavery**—Or a date thereafter. I would like to stress that we are not wedded to the 2010 date.

**CHAIR**—Would you be able to sell 17 million set-top boxes in two years? It is a lot of set-top boxes. Everyone is going to have to buy one of these. Once you have switched the analog signal off, they are going to have to upgrade.

**Mr Lavery**—Which is not dissimilar to what happened with the switch over from analog to digital mobile phones.

**Mrs BRONWYN BISHOP**—Hurray! That is exactly what we want to avoid—the real unsettling effects that that had on so many people. People were very unhappy voters. There are some lessons to learn from what happened with the switch over of mobile phones.

**Mr Lavery**—Which is why we are promoting the flexible timetable. To stick to the 2008 date at the moment will repeat that.

**CHAIR**—You obviously agree that the term ‘digital’ has caused real confusion for consumers. Have you any programs to roll out—for example, training retail staff—to get a better understanding out there? Do you have any ideas, other than that, to help people get over that misunderstanding?

**Mr Jenkins**—We always have ideas. Obviously one of the major concerns in the uptake of digital television has been awareness, whether that has been awareness of the actual benefits of digital TV or awareness that the 2008 date is coming. We are working quite extensively with our retail partners and, to a lesser extent, directly with the consumer to get those two messages across. Part of our 2005 and beyond plan is to reinforce and continue to increase awareness levels and our communication about digital TV.

**Mrs BRONWYN BISHOP**—Suppose we switched off in 2010—Peter might like this question—and forced everybody to have a digital television set. That would mean we would have 17 million analog sets to get rid of. Getting rid of a lot of analog mobile phones was a big problem. How are we planning to get rid of these—in fill, dumping?

**Mr Lavery**—LG, together with other manufacturers, is involved in a voluntary industry scheme to arrange for the recycling of televisions. This is a COAG process that has been in place for two or three years. We are supportive of that.

**Mrs BRONWYN BISHOP**—How do you recycle them?

**Mr Lavery**—The technology exists. The real challenge—

**Mrs BRONWYN BISHOP**—You recycle them into what?

**Mr Lavery**—Electronics is easily recycled. The componentry can be broken down. The challenge in recycling is motivating the consumer to participate in a take-back program, and that is what governments are struggling with at the moment. The New South Wales government has recently been vocal about the need for the computer industry to take responsibility for its own product, and the same applies here. We are part of that initiative to arrange for product stewardship programs, and obviously a switch-off date would be an incentive to motivate consumers to participate in them. I do not pretend that it is an easy process, by any means, but the infrastructure is there.

**CHAIR**—What percentage of a TV is recyclable?

**Mr Lavery**—A large componentry. I would be happy to provide a very certain answer after this session but, from memory, it is certainly more than a majority of the componentry.

**Mrs BRONWYN BISHOP**—What do you do with the tube, the CRT?

**Mr Lavery**—It is recyclable.

**CHAIR**—How many TVs are you getting back for recycling? About 1½ million are sold each year. You would not be getting that many back.

**Mr Lavery**—The industry scheme is not yet fully operational. I cannot project where we are heading. It is certainly scheduled to be in place before the current framework for analog phase-out.

**CHAIR**—Sustainability issues are critical to this as well. One of the things that was demonstrated to us this morning is that a set-top box uses 20 watts, whereas a TV in standby mode uses one watt. Hence, if we get all these set-top boxes—17 million of them—out there, gigawatts of power are suddenly going to be used. Have you any feedback on the greenhouse—not just landfill—issues as well?

**Mr Lavery**—Obviously, an integrated set is a more efficient user of energy than a television and a set-top box together.

**CHAIR**—Hence, that is a very good environmental reason we should race to the 2008 switch to TVs rather than set-top boxes.

**Mr GARRETT**—Firstly, I note that at last someone has come up with a possible alternative phase-out date, and it is good to see that that has been committed in writing to this committee. I notice that you, I think, effectively endorsed the proposition that was put earlier on by Panasonic for the conformance centre. You would have heard the interaction between the committee and Panasonic on that. Is there anything else that you want to add?

**Mr Lavery**—We are comfortable with that discussion and recognise that the starting point is government's role in mandating what that standard is—that is, the non-monetary contribution that government could make towards it. Beyond that, LG. is putting up its hand to work with industry and government on how that centre is to be established and operated, and I think that is an ongoing discussion that should—

**CHAIR**—Do you see the government as a financial contributor?

**Mr Lavery**—In following the lead of mandating, we would obviously hope to involve government in that discussion, because we have not come to the inquiry with an understanding of what it would cost. If it is a substantial cost, it is obviously one that we would seek to be discussing. But if it is not a substantial cost we, as the industry, should be talking about that amongst ourselves, as is happening in other sectors at the moment regarding the way that they manage their standards.

**CHAIR**—So government should mandate some standards for these set-top boxes and digital tuners but keep an open mind? At this stage, it is not open to the committee to recommend that the government should also spend some cash.

**Mr Lavery**—We do not know what the costs are and it would be somewhat naive to be making a recommendation, without having an understanding of what the full cost would be.

**CHAIR**—So we could suggest to government, 'Be prepared for industry lobbyists to come back with an ask for a definitive amount when more work is done and when a standard is set?'

**Mr Lavery**—We will come knocking in some months' time.

**CHAIR**—In terms of mandating, what about also mandating plasmas? There were some rumours that something like 25 per cent of new TVs would be plasmas and LCDs in the future, so if you legislate or mandate the new technology TVs, as well as the large screen TVs—

**Mr Jenkins**—Our definition includes plasma and LCD.

**Mrs BRONWYN BISHOP**—Do you see plasma phasing out?

**Mr Jenkins**—Without getting into the intricacies of plasma versus LCD, they both have a very similar platform for digital television. There is no reason to discuss that.

**CHAIR**—So what about mandating for 66-centimetre TVs and sizes above that? Why do you pick 76-centimetre TVs? Do they come bigger than that?

**Mr Jenkins**—That is the most prominent wide-screen product and therefore it gets most benefit from digital television. Just to reinforce what we spoke about earlier, LG's position is that we are looking for discussion with the inquiry with regard to a certain date, because that date gives us the ability to set production plans and bring to market digital products at price parity with current analog technology. That is how we believe we can work with the inquiry to reinforce the digital TV message.

**CHAIR**—As long as a date is set as the driver of the take-up of digital, you guys can meet it? You really need two years, don't you?

**Mr Laverty**—And consumers can then look forward to being able to buy a digital television at or about the same value as they can buy a standard analog television today.

**Mr Jenkins**—Irrespective of size.

**CHAIR**—Can I have that in writing?

**Mr Laverty**—I think it is in writing.

**Mrs BRONWYN BISHOP**—What about all of those other issues that we raised earlier about antennae and bad experiences and all those things? Do you have a comment on that?

**Mr Laverty**—We are not manufacturers of antennae or the senders of the signal, so I do not think we can make a valuable contribution.

**Mr HAYES**—In terms of the set-tip boxes, though, you heard Panasonic's position when talking about their ability to access them over the air. You guys will obviously be looking at similar access. Would you access it for the purpose of modification, interrogation and/or diagnostic activity as well?

**Mr Laverty**—You are raising the question of how the privacy laws would operate and govern how we may interfere with products. The principle is to ensure that, if a standard is mandated as to the platform upon which that operates, we are then able to protect a consumer when they are purchasing these set-top boxes.

**Mr HAYES**—So you can upgrade and maintain it within that standard. You would upgrade that by some form of transmission over the air that is received by the box. Is there an issue for us to look at with respect to liabilities affecting adjustments to digital receivers?

**Mr Laverty**—That is essentially what the testing and conformance centre discussion is looking at to ensure that, before any upgrade were to occur, the measures have been taken to ensure that it was not going to have a detriment to a consumer's set-top box. The starting point for that is the mandating or establishment of what that standard is and then having the infrastructure in place to ensure that any transmission that occurs is safe and in the consumers' best interests. So yes, the inquiry should be looking at that and ensuring in its recommendations that loopholes have been covered. If it is useful for us to give further technical advice on that, we have that capability and would be happy to provide it.

**CHAIR**—I think that would be good. There is a bit of a non-tariff trade barrier type argument although clearly not in your case because you import all of your TVs, so there is no reason for that suggestion.

**Mr HAYES**—With the chips that you are putting in digital tuners now, are they capable of being accessed over the air?

**Mr Jenkins**—I am unsure about the actual technicalities of that, but I am told we are.

**Mr HAYES**—I was just wondering whether we were looking at building in at this stage a level of obsolescence. But, from what is being said in the background, they have that capability.

**CHAIR**—But I think that, every year you delay mandating, there are another 1.5 million TVs with built-in obsolescence going out there. It is something that keeps happening.

**Mr Lavery**—Yes.

**Mr HAYES**—I just did not want to see obsolescent digital TVs going out there.

**CHAIR**—Thank you very much for that.

Resolved (on motion by **Mr Hayes**, seconded by **Mr Keenan**):

That, pursuant to the power conferred by section 2(2) of the Parliamentary Papers Act 1908, this committee authorises publication of the evidence given before it and submissions presented at public hearing this day.

**Committee adjourned at 5.03 pm**