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Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Reference: Uptake of digital television in Australia

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, INFORMATION TECHNOLOGY AND THE ARTS

Wednesday, 10 August 2005

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

Members in attendance: Mr Garrett, Mr Hayes, Mr Johnson, Mr Keenan, Miss Jackie Kelly, Mr Laming and Ms Owens

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

WITNESSES

Committee met at 9.11 am

COSGRAVE, Mr Michael, General Manager, Telecommunications, Australian Competition and Consumer Commission

CHAIR (Miss Jackie Kelly)—I declare open this public hearing of the House of Representatives Standing Committee on Communications, Information Technology and the Arts inquiry into the uptake of digital television. The inquiry arises from a referral to this committee by Senator Helen Coonan, the federal Minister for Communications, Information Technology and the Arts. Written submissions were called for and 82 have been received to date. The committee is now conducting a program of public hearings and informal discussions and this hearing is the sixth for the inquiry.

I welcome Mr Michael Cosgrave from the Australian Competition and Consumer Commission. 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. Would you like to make a brief introductory remarks, then we will move to questions.

Mr Cosgrave—The ACCC’s submission to this committee is one of a number it has made over a period of some time in relation to the impact of broadcasting regulations on competition and innovation in the broadcasting sector. It is widely recognised that digital TV as a delivery platform offers a number of benefits to consumers in terms of sharper picture quality and better sound quality et cetera. However, it appears that these features in and of themselves have not provided a sufficient value proposition for Australian consumers to make the investment in switching to digital at this time in any great numbers.

In this context the ACCC’s research, which it has provided to this committee, tends to suggest that the uptake of digital TV will flow from consumers being offered new and innovative content and services which are able to meet their preferences and needs. Competition is, of course, one of the principal architects of innovation. Increasing the potential for competition in free-to-air broadcasting as well as between the free-to-air and pay TV sectors will likely drive customer choice and innovation and therefore promote the take-up of digital services. In this regard, the extent to which competition can emerge will be dictated to a large extent by the regulatory framework applying across the broadcasting sector.

Whilst the ACCC’s submission to this committee focused on the issue of the current prohibitions on multichannelling, the ACCC has previously expressed in a number of submissions the interlinking nature of a number of current broadcasting regulations which, in its view, appear unduly restrictive. Those include restrictions on the use of the broadcasting spectrum, regulations relating to datacasting, the current anti-siphoning regime and the high-definition TV quota.

Whilst acknowledging that those restrictions in the media sector have been implemented in part to achieve various social objectives, it is the ACCC’s view that these may be inhibiting consumer choice, competition growth and innovation in this sector. Additionally, it could be argued that they have not all achieved their social policy objectives. It is for this reason that the ACCC has been consistently putting its view that the onus should be on advocates of restrictions on competition and supply to demonstrate the benefits of the restrictions, that the benefits outweigh the costs and that the stated policy objectives cannot be achieved by less restrictive means. Otherwise, the ACCC would be concerned that the regulatory framework may impede rather than promote the realisation of benefits from digitalisation, including the freeing up of scarce spectrum resources and likely gains from broadcasting competition.

CHAIR—In terms of some of the restrictions that you see as inhibiting competition in the sector from a consumer perspective, why do you include the HD quota?

Mr Cosgrave—For a number of reasons. The commission has made a submission in relation to the issue of the HDTV quota to the current DCITA inquiry, which we are quite prepared to give the committee, and indeed we have commissioned some technical research in relation to the way in which that HDTV quota is being met. To some extent there is a tension fundamentally between a high-definition TV quota and the ability of commercial entities to multichannel. Indeed the way in which some of the free-to-air channels are meeting their HDTV quota requirements reflects both the commercial choices they have made and their views in relation to multichannelling. For instance, we are advised by consultants that both the Nine Network and Ten Network are deploying high-definition at the highest of three standards that are able to be deployed. Together with the way they are deploying their standard definition TV services that provides them with very little capacity to multichannel. Whether they do so or not in the absence of any regulation would, of course, be a commercial choice for them.

CHAIR—In our tour of the Channel 10 facilities, and the other submissions from the other broadcasters, it seems that there is a genuine commitment to HD. They think that without the quota they are going to be 100 per cent HD anyway and do not need any more drivers to meet that. They are advising that by a move from MPEG2 to MPEG4 they can reduce the amount of spectrum but still provide the level of HD so that there is a distinguishably better picture. Their argument is that with less than 14 megabits per second out of your 23 it does not really become—

Mr Cosgrave—I guess the ACCC's perspective is that that should be a commercial proposition for the carrier rather than a mandated quota system which we would see as being possibly restrictive to other people who may want to pursue other commercial ways of delivering services.

As you put it, Chair, it may well be that one or more of the free-to-air networks have decided that HDTV is the way to go in terms of the objectives they are seeking to pursue. That is clearly a commercial decision for them. The point we would simply make is that other parties may wish to pursue other commercial opportunities as a way of competing, and clearly HDTV would be no competition in terms of picture quality, sound et cetera. Others may seek to compete, for instance, in relation to the provision of additional content or the provision of additional services, should they prove commercial.

CHAIR—What is your position on the fourth channel? Do you reckon it should go to a broadcaster rather than to datacasting?

Mr Cosgrave—That has been the commission's position over a period of time, yes.

CHAIR—So you see it as more commercial competition for channels 9, 7 and 10. I see it as a technological thing. As I look around, as an Australian who gets around living rooms, I see that people are going for bigger and bigger and flatter and flatter screens. They really want the TV out of the room set-up. We have an ageing population and are looking at 30 per cent of Australians being over 65. Big television screens hang on the wall like a picture frame and combine internet and television on the same screen. If the internet is there, why is there a need for datacasting? Why would you broadcast something when someone can set up their internet for the exact sites that they want and are relevant to them, be it traffic, weather or anything we are currently datacasting? To me, it does not make sense technologically, whereas you seem to think and are pushing the fact that channels 7, 9 and 10 need competition—that three channels are not sufficient.

Mr Cosgrave—I guess you are pointing to the possible development of IPTV.

CHAIR—It is already here. For about $200 you can put something on the end of your computer and pick up digital TV and play it through your computer.

Mr Cosgrave—Yes, indeed. But we are yet to see, necessarily, convergence at the application level where you get, say, your broadband provider and your broadcaster both providing services through one screen mechanism. That scenario is quite possible in the future, but it is not something we see at present. Clearly, there are various views around the time frame in which we might see, for instance, telephony companies or other companies providing broadband services in a way that directly competes with broadcasting services. The commercial drivers for that are fairly unclear. There are also a number of issues around access to telephony services et cetera which mean the time frame for that sort of scenario is still a little unclear.

CHAIR—Given those future challenges to our broadcasters and the further sniping away at their market share from all the different screen technologies that are out there, do you not think that in terms of the consumers' interest it would be better to give them some protection rather than to open them up to even more competition?

Mr Cosgrave—For the reasons we have outlined, given that the competitive scenario is a little uncertain, we have consistently put a position that says where there is available spectrum there should be consideration given to a further FTA licence.

CHAIR—You do not think, from a government's perspective, there are other things you could be doing with that spectrum in the future?

Mr Cosgrave—I would certainly agree that, with that spectrum being the finite resource that it is, there are some choices for government in the deployment of any spectrum that becomes available through digitisation processes.

CHAIR—What about community TV being another area of competition?

Mr Cosgrave—I have to say to you that that is not an area in which the commission can claim any particular expertise.

CHAIR—I will keep going on antisiphoning. Would you like to see the scrapping of the list completely?

Mr Cosgrave—I do not think the commission has ever been quite so bold as to say that. The commission has clearly pointed to the fact that the list certainly impacts upon the ability of the pay TV operators to operate with free-to-air networks. It accepts, as I think I said in my opening statement, that there are some social objectives that government will want to pursue. It has clearly put the position that any advocates of restrictions of that sort would need to clearly articulate the benefits of a restriction of that sort. Certainly, the commission has said that a review of the list from that perspective would be welcome, when combined with an examination of each of the other measures I have outlined.

CHAIR—TV rights fund a lot of events, particularly sporting events. The television rights to an event are substantial underwriters of all sorts of things. Is the sporting body maximising that funding something that the commission would see as a consumer issue in terms of the sporting bodies, or would you still see it as an issue of the viewers, the consumers, watching the sport?

Mr Cosgrave—We have said in the past that that could be the subject of further government consideration as a dual-rights scheme. That would present an opportunity for sporting bodies to negotiate separately with the providers of different services. Clearly, in discussions we have had with sporting content providers from time to time, they are certainly aware that their market is changing; they are no longer fixated upon one set of rights to maximise the eyeballs for their content. They are increasingly looking at the delivery of their content not only across traditional broadcasting but also across pay TV, 3G and the internet, so there is an increasingly more diverse set of consumers for their content.

CHAIR—I understand that multiselling your rights is where one person picks up the primary rights and if they are not going to broadcast then someone has the secondary rights, but what often happens is that there is a late programming change, which is way too late for pay TV or any secondary owner of rights to broadcast. However, with a simulcast situation, the broadcast owner of those rights can keep that program running or still run it—have an obligation to run it—within their spectrum, if it runs over time or beyond the news or something, whilst maintaining their scheduled programming. I was going to give cricket as an example, but I am lousy on cricket! So which of those regimes do you see as increasing competition or being in the consumer’s best interests?

Mr Cosgrave—I am not sure I can proffer a straight better-or-worse scenario for what you put, frankly.

CHAIR—So possibly allowing your current broadcasters to multichannel any sporting rights?

Mr Cosgrave—Clearly, we would see the ability to offer an increased range of sports as one of the potential drivers for multichannelling. One example that is often used would be, say, where tennis rights are purchased but you fundamentally see one match at any one time. A multichannelling environment would clearly allow a provider to provide a more diverse range of services to the consumer.

Ms OWENS—Are you suggesting the freeing up of multichannelling for SBS and the ABC as well?

Mr Cosgrave—Yes, and so are they, of course.

Ms OWENS—Of course.

Mr Cosgrave—Again, they already have won the capacity through legislation but also because of technical choices they have made. We certainly would not be differentiating between, say, the national and free-to-air broadcasters in terms of any restrictions upon them. We appreciate that there are obvious differences at the moment, but from a competition perspective we would certainly be suggesting that the genre restrictions on them at the moment also be removed.

CHAIR—Coming back to advertising—I am sorry; I do not want to dominate things—two of the broadcasters have basically said that they are really not in favour of multichannelling because their revenue is static; in fact, their revenue is eroding. Everyone is going to PlayStations, music, downloading videos, and the internet—there has been a huge chewing away at the television audiences. They have moved to other screens. Now, with pay and possibly handheld TV and your mobile phone, it has all chewed into their advertising revenue, so it is static. So they are saying: 'Even if we multichannelled, our revenues from advertising are going to be static. We have to run ads on this station, ads on that station. The take is the same and our expenses are up. It's basically just chewing our profitability.' Do you have any comment on that?

Mr Cosgrave—A few things, I suppose. Firstly, the material we have provided makes some comments around the current returns of the free-to-airs, from the most recent figures of 2004—the returns that the free-to-airs in Australia are able to obtain compared to their international counterparts. So, firstly, there is that issue, which says that the returns of the free-to-airs are still pretty attractive compared to those of their international counterparts.

Secondly, when we are talking multichannelling we are not talking about mandating it; we are talking about allowing it. Again, we come back to how people seek to compete. The people putting that point of view to you are equally putting a point of view to you that says, 'We want to compete in relation to high definition.' The commission's point of view would be that that is a legitimate commercial choice, of course, but that Australian consumers should have the ability to make the choice between those seeking to compete on bases other than the quality of the signal delivered to them. Of course, we have one of the free-to-airs advocating multichannelling, so that immediately brings forward the obvious proposition that there is more than one business case being advanced here. I guess the commission's proposition, therefore, is that the market should be the ultimate determinant of which is the better commercial choice.

Mr LAMING—I want to push further into the area of international evidence and the impact of a multichannelling sector. In your submission you have stated that there is increased consumer choice and that may well be a driver to take up digital services by having multichannelling. I want to know whether that is just a supposition or whether there really is international evidence that people say, 'I'd like to take up a digital service because I can get these smaller channels.'

Mr Cosgrave—We provided the committee with a report that we commissioned for the purposes of a separate exercise. It has a fairly extensive section on international experience and perhaps contrasts the northern American experience, where there has been a high reliance on HDTV, with the European experience—and there have been a variety of models—which has been designed more to allow competition around multichannelling services. I hesitate to go too much to the UK experience because it is somewhat different—the free-view experience—and I do not want to rely upon that too greatly, but that is an example of where free-to-air multichannelling has greatly increased the take-up of digital TV.

The other example we point to in the material we provided the committee is Germany. In Germany they have taken a fairly innovative route—and, I might say, a fairly aggressive route—in fundamentally not having a simulcast period but, on a regional basis, effectively having a turn-off with an aggressive multichannelling approach, and they have been able to turn off within 18 months. Those sorts of matters are clearly policy matters for government, but I guess we have provided them to the committee as an example of some alternative approaches, where some choices have been made in relation to the promotion of multichannelling, particularly free-to-air multichannelling.

Mr LAMING—It would be interesting to see whether that is actually leading to any significant additional take-up of digital over and above the natural rate of digital uptake and whether people in their surveys say, ‘It’s the multichannelling that made me switch.’ I would like to see whether or not that is a significant proportion.

Mr Cosgrave—I would draw your attention to the material we have provided. A chapter in a report done for the commission by LECG particularly points to that UK and German experience.

Mr LAMING—The follow-on to that is the other side of the coin: that multichannelling significantly undermines advertising revenue for the main providers. It will be interesting to do an analysis of whether it simply brings new advertising to the television market in the form of lower cost advertising for new players who can afford to advertise via multichannelling but could never contemplate it under the current arrangements. All we see at the moment is that large vehicle manufacturers and pharmaceutical companies can afford to advertise but no-one else can. Does multichannelling simply bring new advertising players to the market who can afford the lower rates, and little change as far as gross revenue goes? Is there international experience to either support or dispel that view?

Mr Cosgrave—I am not aware of any empirical data on this. There are lots of arguments about multichannelling being able to promote niche audiences and therefore different advertisers coming into the market. Certainly the commission have not done any work on that. But we will have a bit of a look and if there is anything freely available that we can provide the committee with we will certainly be happy to do that.

Mr LAMING—I make that point only because I think there is a general public good if the overall advertising spend from a community, from an industry, is greater. If there is a net increase because of multichannelling, it does not so much matter if Toyota pays a few hundred dollars less per second if that is being more than made up by more industry being able to afford to advertise and there being different tiers of advertising, which currently is not available where you only have two, three or four providers.

Mr Cosgrave—I understand the proposition. As I said, we make a number of observations but they are simply observations of what one might expect. I accept that a number of different scenarios might emerge. I have to say to you that I am not necessarily aware of any empirical work that has been done on it. You would expect that there probably has been some. We might do a bit of a search.

CHAIR—So you are just talking about multichannelling; you are not codifying the changes to allow multichannelling as such. Another way of doing it is that if you have bought the broadcast rights for something on the antisiphoning list then you have to broadcast, so you could put that out on an SD multichannel and put your program on the HD. You have to give the guarantee of broadcast, and that becomes the multichannelling regime, rather than something broader.

Mr Cosgrave—Unsurprisingly, the commission would be in favour of the least restrictive system possible. I guess you are positing a scenario where, if you have a use it or lose it situation, you are kind of indirectly forced to provide content over at least one other channel. I guess we were contemplating a scenario where the only restriction on the number of channels that you were providing was fundamentally a technical one—it was fundamentally a capacity issue. So we would not necessarily see a tinkering with the antisiphoning regulations in a way that would encourage people to engage in a limited form of multichannelling but in some way having some other restrictions on broader multichannelling as being the appropriate approach.

CHAIR—The other thing that is happening because of multichannelling and SD—most of the set-top boxes have been sold as SD—is that we are seeing the HD boxes coming down in price and now there is MPEG4. Can an MPEG4 signal be picked up on the current HD boxes or are they only MPEG2?

Mr Cosgrave—You are stretching my meagre technical knowledge.

CHAIR—It is about the legacy issue for the consumers. Already there are 17 million analog TV sets out there which I would consider redundant. Depending on the HD quota, if we go to full HD broadcasting, which seems the preference for two stations at least, the SD sets have some legacy issues, and then there are even more with MPEG4. The poor old consumers will be left with lots of these little boxes on top of a TV that does not work.

Mr Cosgrave—You are touching on an issue on which I think the commission, frankly, is still educating itself. We have been talking to a range of set-top box providers and we have got a few more in our sights just so that we can understand precisely the same dynamics the committee is trying to understand, so I do not think I can—

CHAIR—I think the consumers need some protection. I went to buy a set-top box and I asked, ‘Is it SD or HD?’ and the salesperson read the box and said, ‘It’s SD.’ I asked, ‘Don’t you have an HD one?’ They said, ‘They are not broadcasting in HD yet.’ I said, ‘Oh, really!’ I think I would have believed her, except for the fact that I have spent some time on this committee—she was that convincing. Consumers need a bit of protection given the number of these boxes that are going to be sold. There are 17 million TV sets out there. I think people want some guarantees that the sets are going to last the distance with regard to the technology. They want some protection there.

Mr Cosgrave—Technology is constantly evolving, and that provides a lot of challenges in relation to redundant equipment. I guess the approach, from a consumer protection point of view, has always been in terms of making sure there are not misrepresentations made around the quality or characteristics of a particular set-top box, motor vehicle or whatever, because technology constantly evolves. I certainly agree with you that there is a good deal of consumer ignorance around what set-top boxes can and cannot deliver.

CHAIR—Do you think that the longer the government delays switching off the analog signal, the greater those legacy issues will be? The greater protection to the consumer would come from a definitive switch-off. We have had evidence that for every year that the government delays there are 1.5 million TV sets sold that will not see the digital feed.

Mr Cosgrave—The simulcast period is clearly a policy issue for the government, and I would not propose to comment on that.

Mr LAMING—Can you give us some more information on that question of gross advertising revenue in a sector with and without multichannelling, and whether there are any international comparisons that suggest that the introduction of multichannelling has a net detrimental effect on the advertising spend?

Mr Cosgrave—By all means. I think I have already indicated our intention to go away and see what material we can find. If we find anything we will certainly provide that to the committee, or we will indicate to the committee if our searches are fruitless.

Mr LAMING—I should just point out that we were told by different submissions a whole lot of different reasons why people switch to HD TV. We heard that it was because of its quality, its content and its access to multichannelling. While you have got a chapter here, we have been told some completely contrary things by some of the broadcasters about reasons for switching, public sentiment and decision making: why they do and do not. I think that is also important.

Mr Cosgrave—I understand that other regulators are doing some empirical work on that as well. I know the ABA, who appeared before this committee, are doing surveys. It is probably more within their remit than ours. Given that we are advocating the removal of restrictions, we will have a look at it and see what material we can get on what the effect of that might be from an advertising perspective.

CHAIR—To wrap up, you feel that real relaxation in the multichannelling area would not be financially detrimental to either free-to-air or pay TV broadcasters; you think they would both be able to maintain a sufficient profitability to be delivering high-quality programming and production?

Mr Cosgrave—I do not know that the commission is putting a position about financial detriment. The commission is putting a position, as you would expect, around competition. The nature of competition is that inevitably there are some commercial winners and losers, and that is part of the reason that we would say you cannot look at one set of restrictions in isolation. Clearly, for instance, the pay TV sector would fairly vehemently oppose multichannelling, but the level of their opposition is no doubt at least partially influenced by the level of antisiphoning restrictions they are under. So the commission would say that, by the nature of competition, there will inevitably be winners and losers out of a freeing up of those restrictions. In the commission’s view, that is fierce and robust competition.

CHAIR—You do not see that it is in the consumer’s interest to have some Australian production content on free-to-air television? If you drive them too low then you just buy packaged content off the shelf very cheaply from international sources. I think the quality of free-to-air television at the moment is pretty low. Between crime shows, forensic shows and reality television, the ABC is starting to look really good.

Mr Cosgrave—Again, that might represent an area of competition that might emerge as a consequence of the freeing up of restrictions.

CHAIR—Do you think the quality would improve?

Mr Cosgrave—It must at least be a possibility. I acknowledge that there are costs around the production of content. But if that is the driver that consumers are interested in and if we are dealing with a population whose taste is becoming less homogenous, you might find—inevitably I am speculating here; I am simply putting this to you—that the production of more Australian content may be a competitive differentiator for a broadcaster.

CHAIR—Thank you very much.

[9.54 am]

PERKIN, Mr Keith Edward, Chief Executive Officer, Retravision 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. Would you like to make a brief introductory statement?

Mr Perkin—Thank you for the opportunity to be with you today. I note from the submissions you have received that there was only one from a retailer. It is a pleasure to be here to talk with you today. To give you a little background about Retravision, we have 485 stores in Australia. There is a bias in our network towards rural areas and that will impact on some of the comments that I make today. Our stores are all owner operated. The structure of the organisation is as a buying cooperative. The stores are independently owned and the store holders are shareholders in the company. We have trading relationships with most branded suppliers—not all but most—however, we do not directly source or import in our own right. There are people in the market who are doing that at the moment.

In my submission I have made the point that sales of widescreen TV and flat panel product have increased dramatically over the last 12 months and certainly set top boxes are in that category. At the same time, the market for conventional TV has declined by over 22 per cent—it is dropping right away—and that segment of the market is extremely price competitive. I think a lot of retailers are getting out of it as a result. I believe that consumers are very confused about digital TV. When people go into stores and buy plasma and LCD I do not believe they are going in because they want to access digital TV. I think the product has become very aspirational. It is new technology and people are buying it because of that, and because of the impact of large screen sizes in their recreation areas in homes.

At the moment our perspective is that there is limited programming in digital format that people are accessing and the coverage in rural areas is confusing or patchy, at best. I think that is impacting on the attitudes of some of our store owners in terms of what they stock and it may be impacting on what the public are buying, particularly in rural areas. At the moment, apart from picture quality, the reasons for upgrading to new technology are not compelling, other than from people who are turned on by new technology, and I think that has driven it.

Initially, the plasmas and LCDs were being bought by early adopters, now they have become a more aspirational product. As the price points have come down more people are accessing them, but you do not get people saying, ‘I want to get onto digital TV,’ whereas you do hear people saying they want to buy a plasma or an LCD. It is extremely confusing for the consumer and it is difficult for the retailer in terms of standard definition versus high definition, integrated tuners versus set top boxes. It is quite a confusing set of things that we have to deal with. Training is a major issue, and keeping staff trained and informed on the floor is a really difficult problem for retailers.

The other point I wish to make is that the Australian market, in world terms, is relatively small. I make this point because I think it is very important that, whatever we do in legislating for things that may take place here in Australia, we have to recognise that we are a very small part of the manufacturing process for the major manufacturers and factories in China. Therefore, if we set standards that are not widely used in other countries, we can find that the technology coming into Australia is slow. I suspect that one of the reasons why we are seeing a lot of set top boxes rather than integrated tuners coming into the Australian market is that we have chosen a standard that is a hybrid of standards in larger markets around the world.

I think no-one is terribly clear about what is happening in 2008. Certainly the public are not. I suspect some of the manufacturers or suppliers are not either. I think it is important to bring some clarity around that point. Whether it is 2008 or a later date, we do need clarity. It is really important to be able to communicate to consumers the ‘what is in it for them’ of whatever happens. It is also important to communicate to suppliers, because they are setting their product road maps years out and unless they are very clear about what is happening they have to take a stab at it. I think that makes it very difficult for their product planning. I think it is important that we do need some clarity about what date it is and what is actually going to happen at that date. That is all I would like to say to start with.

CHAIR—We had some very similar comments from LG. In fact, LG went a bit further and said, ‘Well, 2008 is probably gone, given what we have already ordered now for 2007-2008,’ but they could do 2010. They said: ‘If government made a decision now, we could put our product lines in order, we could put our orders on and we could be up and selling. We could retail right throughout Australia with a 2010 deadline and meet it.’ Do you have a comment on that?

Mr Perkin—I am not a manufacturer. One of the other comments I would make is that, from a retailer’s perspective, the business is very largely driven by suppliers. We sell what they produce. I have only heard anecdotally, and you see what is happening in the market. Koreans and Taiwan suppliers are the ones supplying the set top boxes, so they have the technology. I do not think other non-Korean, non-Taiwanese manufacturers have the technology at this moment. They will develop it and I know some of them are doing work on that to have integrated tuners in their sets. But the number of sets that are available with integrated tuners is very limited, and it is really only LG who are out there promoting them at the moment.

CHAIR—I do not know how much experience you would have in terms of the variety of set top boxes that are out there. I have not recently purchased one. They are not that easy to tune.

Mr Perkin—I am not a technical person. But I do know that there is a plethora of non-traditional suppliers out there. People we have never dealt with before are popping up, selling set top boxes into the market.

CHAIR—Is it really operator error that is leading to your observation that coverage in your rural areas is patchy? Our understanding from the broadcasters is that 98 per cent—or an inordinate number—of Australians are getting very good, high-quality digital broadcasting. But you are telling us that your rural stores are very patchy.

Mr Perkin—The feedback I am getting from store owners is that in specific areas it is patchy. If you go on to the DBA web site you can get a listing of locations where some or all broadcasters are broadcasting. It is amazing: when you look in the ‘some are’ column, that is where all the country towns are. It is the major centres where all the broadcasters are currently broadcasting. In the rural areas it is very patchy. Not all broadcasters are broadcasting in digital format. Certainly outside of the major towns there is not the coverage.

CHAIR—That was not the evidence that we got. That would be interesting to follow up. I actually had a similar experience when I was trying to help someone tune theirs in. I was thinking, ‘Either they are not broadcasting or I just really can’t tune this thing.’ Can you go a bit further into why you think the broadcasters have not provided a compelling enough reason for take up? Is it that the pictures are not good enough or the sound is dropping out or the coverage is—

Mr Perkin—There is no doubt the picture quality is very good and the picture quality in the broadcasts that are in digital format is great. When you go to larger screen sizes the pixels are actually larger. The analog signal does not look good. If you have just spent $5,000 on a plasma and you have got an analog signal on it, it is terrible.

CHAIR—Yes. I think there was a hesitance with plasma because everyone got it and you would go around to your neighbour’s place and look at the plasma screen and think, ‘That’s awful.’ But it improved with digital.

Mr Perkin—If you put a set top box on it that can take a digital signal it improves dramatically. If picture quality is the only reason you are going to spend that amount of money on a TV, it is a big ask. What people have been sold with digital television is that it gives you many more options in terms of selecting camera viewing angles and interactivity—those sorts of things, which I think are the real winners for a consumer, particularly the tech savvy consumer that is buying this particular product.

CHAIR—You are saying that it has come out of the early adopters and is now into the aspirationals.

Mr Perkin—Yes. The aspirational people are buying it for the same reason that the early adopters did—the better picture quality. But if we are going to see a massive take-up, there need to be some more compelling reasons for people to take on the new technology.

CHAIR—But we are seeing massive take-up of the big screen and wide-screen technologies. Panasonic gave us some figures on their sales. I wonder if this is an industry trend in what you are seeing. The flat screens in Australia have gone from seven per cent of the market in 2004 to 22 per cent in 2006. There are huge leaps in flat screen and large screen TVs. If you go to the figures for those over the 53-inch screen, which is still a very big TV, they get quite dramatic—virtually 70 per cent are into very big screens.

Mr Perkin—That is right. I think the rates of increase are very strong.

CHAIR—People want the big TVs, they want the big screen, but they are ambivalent about what they want on it.

Mr Perkin—If you take the view that a television replacement cycle is about 10 years and you go back 10 years, if you were buying a TV then you were faced with a very limited amount of choice. There were some variations in screen size, but whatever you bought they were all square.

CHAIR—They had a cathode ray tube out the back and were black.

Mr Perkin—That is right. You pulled them out of the box, put them on a cabinet, plugged the aerial in, turned them on and they worked. That does not happen today because the plasmas are effectively panels, or they have been up to now, and they have not been out-of-the-box solutions. People have been buying them thinking that they are getting an out-of-the-box solution when in fact they are not. It is then that they have to go back and buy the set-top box and those sorts of things to get exactly what they want.

Mr JOHNSON—Thank you for your presentation. I would like to clarify something. You have mentioned in your submission that consumers are somewhat confused about 2008. Did you refer to the fact that suppliers and manufacturers are also unsure?

Mr Perkin—I did. They all know what was intended, that the analog signal would be turned off in 2008, but there has not been any reinforcement of that. The suppliers like Panasonic, Sony and LG have very structured processes in place. But there is a whole group of lower level suppliers—I will not say at the bottom end—who are opportunistic. They are sourcing product and bringing it into the country. They are not thinking about 2008; they are thinking about three months time when their shipments arrive. As a result, clear messages are not being sent into the market, either by the suppliers generally or by anybody else, that something is going to change in 2008 and that that is not going to alter. That is my point. At the moment, people know that this committee is meeting and they are saying: 'What's it going to do? We know that the take-up hasn't been as strong as what might have been hoped and if the 2008 date is reaffirmed it's actually going to be quite difficult to supply in that time frame.'

Mr JOHNSON—Do your stores keep records on the purchases of consumers—on the demographics of that?

Mr Perkin—Some do and some do not.

Mr JOHNSON—Is it just an individual store policy?

Mr Perkin—It is an individual store thing. Because the stores are privately owned, the customer information is held by the store. It depends on the operator as to whether they are collecting demographic data.

Mr JOHNSON—I wonder whether anecdotally, when you talk about the education level or the information awareness level of consumers and purchasers, we can ascertain whether tech heads, the under-30s or the under-40s are more aware than perhaps some older—

Mr Perkin—I do not think you can generalise. Anecdotally, in the discussions I have had with storeowners, it goes right across the spectrum. You will find a young married couple who obviously have borrowed the money to buy their plasma and a sports-mad individual who just wants it to watch sport. I do not think you can pigeonhole any section of the demographic spectrum; they are buying across the board.

CHAIR—In terms of your buying cooperative, are your figures similar to Panasonic’s for the large screen, the flat screen and the plasma? What is the trend?

Mr Perkin—Definitely into large screen.

CHAIR—Twenty per cent, 50 per cent or 70 per cent of sales? What is your prediction? Is your turnaround in what you are selling from, say, 2004 to 2008 going to be almost flip-flop from the old CRT TV—the old cathode ray TV?

Mr Perkin—It is very dramatic. The old CRT TV, as I said, is declining. Retravision was very big in that segment. As I have said, we have had a 20 per cent fall-off in that segment, and they tended to be the smaller screen sizes. We started to see the trend when rear projection television became available, and that is when people started to move to big screen formats, but rear projection does not have the clarity, or it has not to date, that you get from LCD and plasma. So the move into those large screen sizes has been dramatic. It is a flip-flop in our situation.

CHAIR—Do you see a lot of legacy issues being created through your stores? In any Harvey Norman, Myer or Retravision catalogue—there are lots going out into the community—there is huge competition in televisions and video recorders but not much in set-top boxes and certainly none in integrated digital TVs.

Mr Perkin—There is a bit of advertising appearing on integrated tuners in digital TVs with LG. We do not stock LG, so we are not advertising that, but they are the only ones who have been promoting it. That is because the number of models available from some of the other major suppliers has been very small. We have deliberately attempted, in the way that we catalogue, to skew the consumer towards large screen sizes and plasma and LCD because it is new technology and we want to promote that new technology. If you look at our catalogues, you will see that we strongly advertise plasma and LCD to try to swing the customers across that way.

CHAIR—Often in those catalogues you might see one or two set-top boxes but it does not tell you much more than that it is a set-top box. It does not say whether it is SD or HD, or, ‘There is a 2008 switch-off and you are going to need this for your TV; here is a set-top box.’ Is it going to record something for you; is it going to be a play station—what does the box do?

Mr Perkin—It is very difficult. Cataloguing is there to drive customers into stores. We attempt to provide the information to the consumer on the floor. When we have done a number of national catalogues for the organisation, we have put in little information boxes particularly in the technology area and peppered them throughout the catalogues. Space in the catalogue is very valuable and we tend to want to feature product there because we get support from the suppliers to feature their product.

CHAIR—Is there an opportunity, if the government wanted to have a national community awareness campaign, to do a little Australian government ad within your brochures, Harvey Norman’s brochures and so on?

Mr Perkin—Certainly.

CHAIR—I do not know if we could buy advertising space in the brochures, but could we whack in a set-top box description that says, 'By 2008 you'll need an HD MPEG4,' et cetera? Could there be an opportunity for you to say, 'That one is not going to do it and that one is not going to do it, but this one will do you to 2008 and this one here is future proof'? Is that a way that governments should move? We are looking to minimise the legacy issues out there. I think the people who go out and buy an SD set-top box are going to be disappointed. What is a way of minimising these legacy issues?

Mr Perkin—As a retailer, we would be very happy to cooperate with government—if there were a clear policy—to outline what the policy is and proactively advise consumers.

CHAIR—You could put it in for us for free!

Mr JOHNSON—This would have a very decisive impact on sales?

Mr Perkin—Absolutely, yes. It has a decisive impact on consumer knowledge. When we do these national catalogues, we are printing five million catalogues. They are going out into five million homes around Australia, so it is a very effective way to get information out to consumers and particularly to prequalified eyes, because if they are looking at the catalogue they are interested in the technology anyway. So to put something in there is a very good way to communicate the message. I would argue that the messages on digital television have not been well communicated. DBA have done a very good job with the web site and with some of the material they have produced—they are certainly running information nights for retailers around the place—but unless it goes via the retailer it is not actually hitting the consumer. There is no other place for the consumer to get the information.

Mr JOHNSON—It is definitely a big issue.

CHAIR—Yes, I am finding that. I have been doing a few surveys and it is quite amazing. Some people know all about it and some do not—it is almost 50-50.

Mr JOHNSON—I wonder whether those people who are aware of it are of a certain demographic. Are they younger people? Are they professional people?

CHAIR—It is hard. We are now finding that the over-65s, who were slow adopters, are now some of our fastest adopters. What is the conversation around the water bubbler, or the bingo table?

Mr Perkin—GfK collect market data, so they have a much richer base of data than we would, just as a straight retailer.

Mr JOHNSON—They are talking to us next week.

CHAIR—And ABA are doing a survey as well. We have a few surveys out there hopefully coming back in.

Mr Perkin—GfK have also done some attitudinal research. They have researched actual buyers. That is the ConsumerScope research I referred to in my paper. They have done some research with people post purchase. They may be able to help with that issue about what demographic is buying the product.

CHAIR—In your sales, most broadcasters provide the test loop. When you are selling a TV, would it be helpful, in terms of multichannelling and datacasting, if you could tune in? In Sydney there is a datacasting trial. There is not really any multichannelling anywhere. I think the ABC has some extra channels running here and there in patchy areas, but not generally across Australia. In terms of trying to sell digital TV, would it be beneficial to have an extra channel? Obviously the consumer has not seen these other things that are available. Do any of your Sydney stores find it helpful? At the moment in Sydney you can broadcast the surf report and the traffic report. Do you set them up in your store display and say, ‘Look here; this is digital TV’? Do you find that that pushes the consumer rather than—

Mr Perkin—I think that the individual salesperson, when they have somebody on the floor, does that and demonstrates it. We have run the digital loop and we have also done some work producing some training material, which is essentially produced for the stores but we recut it and show it on the screens, almost like an infomercial, if you like. We are moving to pilot that process through satellite so that we can download it into all the stores. Certainly there is an opportunity, using that mechanism, to demonstrate some information to the consumer about digital television.

CHAIR—*McLeod’s Daughters* is produced in HD and broadcast in HD. If you are receiving it on HD, do you record it in HD, play it back through shops and say, ‘That’s what HD looks like’? You would probably lose some quality there, wouldn’t you? Are HD recorders coming down in price?

Mr Perkin—Yes, they are. They are multifunction units because you are getting set top boxes with hard disks incorporated into them now. They are combo units.

CHAIR—And price wise?

Mr Perkin—The price is constantly coming down.

CHAIR—Are they comparable with your current DVDs?

Mr Perkin—They are not at the level of DVD because that price has eroded very quickly.

CHAIR—Do you imagine that that will erode in the same way?

Mr Perkin—Yes, it has.

CHAIR—DVD has got so cheap so quickly. It was amazing. It got cheaper than the old video recorders.

Mr Perkin—I think suppliers are putting other features into DVD recorders such as hard drives and things like that, which enables them to hold the price up a bit so that the erosion does not occur as quickly as it did. It is not worth while selling a $99 DVD.

CHAIR—It is to a consumer. Let us get Michael Cosgrave back.

Mr Perkin—If you are going to invest 10 minutes explaining the product to a consumer, you are probably not making—

CHAIR—$8 a sale. Do you think 2008 is achievable?

Mr Perkin—I know I said in the submission that I felt that we should stick to 2008 but I do not think it is achievable. Realistically, at this point in time I cannot see that we could get enough stock to fulfil the need if 2008 was mandated. Most of the stock in Australia is coming in from overseas.

CHAIR—2009?

Mr Perkin—I think 2010 is doable.

CHAIR—So you would go with 2010.

Mr Perkin—Yes.

CHAIR—So long as government gave you a clear indication this far out. We tell you 2010 is a definite thing, and you can gear up, do the education through your catalogues and can support a few government campaigns et cetera.

Mr Perkin—And what is actually going to take place in 2010. Is the signal going to be turned off or are manufacturers going to be required to only supply sets with high definition tuners in them? What is taking place in 2010?

CHAIR—What would be your preference for that? When you start mandating technologies like that it is a bit of a high risk, especially with MPEG4 round the corner. We can mandate something in the TV, whereas a set top box is a cheaper, changeable item. I think we can mandate HD, but then what level of HD?

Mr Perkin—That is right.

CHAIR—It just gets more confusing. Do you think we should be that specific or simply that TV should be future proofed and leave it to you?

Mr Perkin—I think that is going to create ambiguity. There needs to be a statement that says: ‘As of such and such a date the only TVs that are approved that will meet standards are this’—whatever that happens to be, and that is the minimum standard. If people want to go up from there they can, but that is the minimum standard. That would apply to everybody.

Mr LAMING—What about some middle ground where we talk about a band between 2008 and 2010 which enables you to use 2008 in selling the product but gives us some flexibility according to take-up? One of the great problems is because technology is improving and price is coming down like mobile phones, everyone that is in a discretionary situation that already has a TV will use it for its life as late as they possibly can and then switch over at the last minute. They are going to do that while waiting for prices to come down, so you are only finding the people that are setting up new houses or replacing old ones. But for those who are changing over perfectly working TVs right now, you are telling us 75 per cent of people walk out of your store without an LCD or plasma. That is still a huge figure even though it may halve over two years.

Mr Perkin—But they may be buying widescreen as well—flat panel widescreen—so it is not saying we are losing them completely. I am not sure that it is right that people will hang off until they absolutely have to replace. I think people are buying the product because they see it. They see the picture, they like what they see and they want it. What tends to happen is that a working television does not end up being thrown out, it migrates to another part of the house.

Mr LAMING—But, with respect, that relates to only 12 per cent of people who go in and buy a television this year, so there is still 88 per cent of people who do not leave home and walk into a store. All those people will have to change at some stage or another. How do we achieve that? Again, what about the use of a band, which is advertising perhaps a two-year period, as early as 2008?

Mr Perkin—I think that there is a place for a band between the point when you mandate that the product must have minimum technology within it and when the analog signal is actually turned off. I can see that there is a need for a band in there, but I am not sure that a band is necessary between a point in time and when you mandate for technology to be in the box.

CHAIR—Do you think mandating the technology in the box is the way to go or mandating the fact that that TV must be sold with a set-top box or with a box in the TV?

Mr Perkin—I think it needs to be integrated, and the reason for that is that that would then apply to all suppliers. There will always be some suppliers who are perhaps not mainstream or big brand who will simply want to sell us the TV, minus the technology and expect us as retailers to fix the problem. What I am getting at is that if the standard is set and it applies to everybody then we are on a level playing field.

CHAIR—Do you think we should phase that in—like America has—and say that by 2008, sets over 76 centimetres have to be integrated; by 2009, sets over 53 centimetres have to be integrated and, by 2010, everything?

Mr Perkin—I think that is reasonable, but there would need to be some dialogue with suppliers about how their manufacturing process works and how their R&D works.

CHAIR—They have not even come to this committee to have that dialogue. This is the opportunity for them to have that dialogue. At the moment we have the American example. You would assume that, if they had issues with that style of putting things, we would at least have had a submission from them. Why do you think there is that reluctance?

Mr Perkin—I do not know.

CHAIR—Why have they not taken the opportunity?

Mr Perkin—I know Sony and Panasonic have had dialogue with you, as has LH, but I do not know why the others have not. Similarly, I do not know why my colleagues have not, either.

CHAIR—I suppose LG is the leading suggestion on how to do this at the moment, isn't it?

Mr Perkin—It may be that they are better positioned with the technology to be able to do it.

CHAIR—Why not give them the market advantage and go with LG's technology and the rest watch out: 'Let's hear from you or else'? Let's give LG the 2010 advantage.

Mr Perkin—I am keen to see some clarity on the date and effective mechanisms for how this can be communicated to the public. They are the two key issues that I think are important. There is an issue regarding rural areas and I think that needs to be further explored.

CHAIR—It concerns me that there is patchy coverage. Even the ABA was confident that the commercial channels were meeting their broadcasting obligations. We have had a few submissions on that matter. A number of individuals appeared and said, 'The signal is just dreadful.' But, after listening to the experts, we came to the conclusion that it was operator error with respect to tuning. Do you reckon there is actually a patchy signal out there?

Mr Perkin—I believe there is.

Secretary—Panasonic demonstrated that there is a combination of boxes, aerials and connectors and, if you get one of them wrong, it will fall over at some point. So there is a further education program needed just with regard to installation.

CHAIR—If your aerial is more than five years old, give it away. You literally need a new aerial.

Mr Perkin—I live in Sydney and in the area I live I cannot receive a high-definition signal. I am right beside Chatswood. I can almost see the towers.

CHAIR—Let's go back to broadcasters about their signal! Thank you very much, Mr Perkins.

Mr Perkin—It was a pleasure.

Resolved (on motion by **Mr Laming**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 10.29 am