

RADCOMMS 2010

THE FUTURE OF TELEVISION

Julie Flynn

INTRODUCTION

- Good morning and thank you for the opportunity to speak about the future of free to air television!
- There has never been a shortage of views regarding the future of television in this country.
- If you listen to some of our competitors this will be a short presentation.
- But some people have been predicting the demise of free-to-air television for a very long time. Fifteen years ago for instance, it was predicted that the broadcast networks were going to be nibbled to death by pay TV, obsoleted by interactivity, swept aside by the internet and displaced by broadband.
- But I am happy to report that free-to-air television survives and indeed continues to adapt and change to the new digital media environment.
- We've invested over \$1 billion in rolling out new digital facilities nation-wide.
- We've launched new channels, which have quickly grown to outperform pay TV, and we have made catch-up programming available online.
- The five free-to-air broadcasters established Freeview to promote the benefits of the digital free to view platform.
- And soon 3D TV will be trialled in Australia in a world-first live and local sporting telecast using the digital free to view platform.
- Whilst Australians enjoy a wealth of media and entertainment options, Free TV continues to dominate other technologies in the home and Australians continue to spend more time with television than any other media.
- Australians appetite for television isn't waning. Despite predictions that the economic downturn would seriously impact consumer electronic sales, the first half of 2009 saw record breaking sales of LCD TVs, topping \$1 billion. Metro broadcasters saw an increase in audience numbers last year.
- Most importantly, Australians still turn to free-to-air TV in huge numbers with just under 5 million people tuning in for the finale of *Masterchef* last year. Over 3 million people watched Daryl and Ossie in the *Hey Hey It's Saturday Reunion* and 2.9 million people watched the final *Packed to the Rafters*.
- There is no doubt though, that there are serious challenges ahead for the industry and for policy-makers. How we respond to these challenges will be an important factor in ensuring the future of free to air television in Australia.
- We are about to commence analogue switch-off – a massive capital, operational and logistical exercise which the Minister has repeatedly compared to the switch to decimal currency in 1966. It will affect every household in the country, as well as schools, hospitals, nursing homes, business and a range of associated industries.
- But for free-to-air commercial broadcasters, analogue switch-off is just one of a number of game-changing challenges which loom on the horizon.

- There is also the government's desire to realise a 126 MHz Digital Dividend, which for us means a substantial reduction in spectrum, severely limiting future growth opportunities and challenging long-term viability.
- It should be noted that Australia is at the upper end in size of the Digital Dividend and retain less spectrum for television.
- The Digital Dividend can only be delivered through the restacking of broadcasting frequencies, a massive undertaking in itself and one which carries the risk of large scale disruption to our viewers.
- This comes as the free-to-air television industry faces long-term structural upheaval, with the fragmentation of audiences, sharp and ongoing declines in ad revenue share and the rapid emergence of competing media platforms.
- And then there is the government's game changing decision to fund a \$43 billion dollar national broadband network.
- Despite all these challenges free-to-air television continues to be highly valued by the Australian public and it delivers a range of important public policy outcomes.

THE IMPORTANCE OF FREE TO AIR TELEVISION TO AUSTRALIANS

- I think it is worth reminding ourselves of the unique role of free-to-air television in Australia.
- For the Australian public, free-to-air television continues to be a very important part of their lives.
- 70% of Australian viewers rely exclusively on free to air television – they cannot afford or choose not to pay for television services.
- Consumers continue to expect high levels of quality Australian content, free access to news and current affairs and free coverage of major local and overseas sporting events.
- On any given day, an average of more than 13.2 million Australians watches free-to-air television. Free-to-air television reaches 99.7% of Australian households. The majority of households (68%) have two or more TVs.
- Australians continue to spend more time with television than with any other media – and this is true still for teenagers, who have more entertainment options these days than at any other time.
- Despite assumptions to the contrary, the amount of time people spend watching television isn't decreasing. It has been stable over the last 5 years, despite the growth in alternative audio-visual entertainment options.
- It is in this context that we should view questions relating to the future of television, and in particular, the spectrum that is used to deliver these enduringly popular services.

A SMOOTH TRANSITION TO DIGITAL SWITCHOVER

- Free TV has always emphasised that the overriding objective in the digital switchover process must be to ensure that every home that currently receives free-to-air television in analogue, must receive a free-to-air digital television service of equal or greater quality after switchover.
- With analogue switch-off starting in 56 days, this is one of our key strategic challenges and the outcome has the potential to impact all Australians.
- As I have said at past Radcomms conferences there will be no digital dividend for viewers if the analogue switch-off process does not deliver a strong digital free-to-air platform that is at least as good as the current analogue system.
- We do not shy away from the fact that there is still a lot of work to be done:
 - 32% of homes must have their primary television converted
 - In total, counting secondary sets, there are still many millions of sets to be converted.
 - 900,000 apartment blocks and other multi-unit dwellings must be made ready
 - Community facilities such as schools, hospitals, universities, nursing homes, libraries and public housing must all be made digital ready; and
 - Digital TV black spots must be addressed and new digital gap fillers installed

So what is being done to ensure a smooth switchover?

- Earlier this year the Government announced its intention to fund a direct-to-home satellite service to provide digital television to homes which do not receive adequate terrestrial television services after switchover.
- Free TV acknowledges the Government's decision and has been working intensively with the Digital Switchover Taskforce to develop the satellite service ahead of switch-off in Mildura at the end of June.
- The service will deliver a full suite of Freeview channels and an on demand local news service to remote Australia and to viewers who are unable to receive digital terrestrial television.
- However, we retain our belief that terrestrial television broadcasting is the best delivery platform for television content – both in terms of cost-effectiveness and the ability to deliver local, targeted services to Australian communities.
- Television broadcasting remains a very efficient use of spectrum – a single 7 MHz spectrum channel can be used to deliver multiple streams of our incredibly popular programming to millions of people. For free.
- A low cost antenna with a splitter and standard wiring delivers this to multiple TV sets in the home with built-in tuners.
- This is why we have committed to install additional 'gap filler' transmitters and have offered digital transmission equipment upgrades for a number of self-help retransmission facilities across the country.

THE DIGITAL DIVIDEND

- As significant an undertaking as switchover is, the challenges facing Free TV broadcasters do not end with final switchover in 2013.
- Spectrum availability is a key part of our business just as it is for the telecommunications industry.
- The implications of the government's desire to realise a clear 126 MHz digital dividend block in the prime UHF spectrum pose real challenges for broadcasters.
- We heard from Chris Althaus, AMTA CEO earlier this morning about the potential economic benefits which are set to flow from the re-purposing of Digital Dividend spectrum for high-speed communications services.
- We do not dispute the benefits from the introduction of these new services, but they will not replace free to air television and in accommodating them we must ensure that television is not handicapped. That means ALL remaining television channels must be able to operate free from interference by new mobile & wireless services in the adjacent bands.
- One of the key impacts for us of a 126 MHz Digital Dividend will be on our ability to evolve, innovate and grow our businesses in an increasingly competitive media market.
- If the broadcasting services bands are redefined, as proposed, with an upper limit at 694 MHz, there will be no remaining spectrum available to permit future technology migration such as the current conversion from analogue to digital television.
- It will be very difficult to switch to spectrally efficient DVB-T2 and MPEG-4 systems in the future without access to additional channel sets.
- Because of the impact on households with legacy reception equipment, a transition to DVB-T2 and MPEG-4 cannot occur without a period of simulcast. Otherwise many viewers face a loss of or interruption to their television services. Under the proposed Digital Dividend, broadcasters will have no capacity to simulcast.
- This will seriously inhibit the ability of free-to-air television broadcasters to grow, evolve and innovate and thereby limits their ability to compete with other media platforms in a challenging media market.
- The impact will also be felt by the Australian public, who stand to miss out on innovative new free-to-air television services as they are introduced overseas.
- It is important to consider the impact of the Digital Dividend decision not just in commercial terms but also in terms of public policy.
- Any negative impact on the long-term viability of the free-to-air platform will diminish our capacity to continue to deliver important public policy outcomes such as local content, quality Australian drama, news and current affairs and free coverage of major sporting events.
- Terrestrial television broadcasters will be further disadvantaged against the pay TV and IPTV platforms, which will not be restricted in this way due to their use of alternative delivery platforms.
- They are also not burdened with comparable levels of regulation, do not pay any licence fees and do not offer openly accessible Australian television programming.

- There has been a high level of consumer and media interest in developments in 3D television broadcasting. This is an example of the kinds of new services which consumers may come to expect in Australia as they are rolled out overseas.
- As many of you would know, the Nine Network has announced a trial local production and broadcast of 3D during the upcoming NRL State of Origin series. Harvey Norman will be opening its stores to viewers during the telecast to allow people to see the results for themselves.
- Whilst it remains to be seen what long-term role 3D television will have in the Australian market, broadcasters' ability to provide 3D programming on an ongoing basis, and other innovative new formats will be severely constrained unless some spectrum is retained for future technology migration (including simulcast).
- This is why we have asked the Government to consider retaining a small amount of Digital Dividend spectrum, to allow free-to-air broadcasters to transition to future technologies and compete with the ever expanding range of media options.
- A transition to new technologies in future will allow more consumer choice, increased diversity, extra business opportunities and, over time, more efficient use of spectrum.
- This approach would be consistent with the approach taken towards spectrum planning for other communications services, such as telecommunications and mobile broadband, where spectrum has been planned for the development and transition to new technologies.
- Let us not forget that the majority of services said to become available on new high-speed communications networks are subscription or fee based services. Australians will be worse off if these services come at the expense of highly popular, free to view television services.

DELIVERING THE DIGITAL DIVIDEND – RESTACKING OF SPECTRUM

- Restacking is a major capital and operational project and, if not managed properly, risks disruption to television viewers around the country.
- We need to ensure that viewers do not find switchover and retuning just too hard.
- The remaining broadcasting spectrum needs to be carefully planned to maximise the benefits of the spectrum for viewers and the industry.
- To this end, (and due to the size of the Digital Dividend) Free TV recommends a 'first-principles' approach to planning the restacked spectrum.
- The restack provides a unique opportunity to wipe away the complex frequency allocations that we have inherited during 50 years of broadcast TV and radio evolution.
- Free TV supports an approach based on allocating five blocks of six contiguous channels of spectrum (commercial broadcasters, national broadcasters and Channel A spectrum), - which will remove many legacy planning problems.
- Within this approach, it is also possible to take into account existing transmission and receiver infrastructure in each licence area, so as to minimise the need to replace equipment.
- Today in Eden (NSW), viewers receive ABC on channel 1 and SBS on channel 69 – a frequency spread of 764 MHz. After restack, those same viewers would receive all of the Freeview digital TV channels between channels 28 and 33 – a frequency

spread of just 42MHz. This same principle would apply for all viewers across Australia – bringing a more reliable TV service that is also easier for spectrum planners to manage.

- The use of closely grouped channel sets will mean that if a viewer receives one service, they will receive all available services in their area. Over time, there would be a reduction in the size and complexity of people's antennas, with a single compact antenna replacing the two or three currently seen on rooftops today.
- We want to avoid an approach to restack planning which involves only relocating those services which currently sit above 694 MHz. This would represent a false economy, resulting in a patchwork solution that is not in the long term interest of viewers or broadcasters.
- The large Digital Dividend Australia is facing also imposes a significant impact on viewers, as more services need to be restacked.
- Viewers will need to know how to rescan equipment on the morning after the restack occurs. Some people (particularly those who live in multi-dwelling units (MDUs)) may require a trained technician to adjust their antenna feed before they can regain free-to-air services and so a short simulcast period will be required..
- The level of potential disruption should not be underestimated. When the UK switchover project commenced in Whitehaven, 60% of the calls to the help-line were about re-tuning.
- When Freeview UK recently undertook a retune to accommodate HD services the call centre was receiving 200 calls per minute.¹
- These complex transition issues need to be carefully considered and aligned with the ASO timetable for each region.
- We continue to work closely with the Government to address these complex issues to minimise the disruption to our viewers.
- Free TV Australia convenes the Technical Working Group – bringing together the commercial and national broadcasters, the ACMA and the Government to consider and resolve technical issues and provide input on the planning criteria around which the restack will take place.

THE 2.5 GHz BAND

- Free TV broadcasters are also being asked to vacate another important block of spectrum.
- Free to air broadcasters, Channels 7, 9, 10 and the ABC are licensed and intensive users of the 2.5 GHz spectrum band. As you all know, this spectrum is used to deliver vital services to all Australians.
- We welcome the ACMA's recognition that broadcasters' use of the 2.5GHz band delivers social benefits to all Australians and we also welcome its commitment to ensuring that "adequate spectrum [is] made available to enable provision of service delivery that is equivalent to that currently provided".

¹ <http://www.experiencelab.info/2009/10/national-digital-retune-causes-problems.html>

- Access to adequate spectrum for ENG is vital to broadcasters continuing to serve the Australian public with free access to high-quality news and current affairs, coverage of sport and major events and Australian and local content.
- Free TV has been working with the ACMA for many years to find a spectrum solution for ENG which offers broadcast licensees long-term certainty and equivalent functionality.
- The spectrum options outlined in the recent ACMA Discussion Paper have the potential to accommodate ENG. However, there is still some work to do to confirm the long-term suitability of the proposed alternative bands and no final decision on replanning and reallocation should be taken until this work is complete.
- Any re-location of broadcasters would impose heavy re-location costs which should be covered. It will be critical that continuity of ENG operation is preserved during any migration period.
- And Broadcasters also need to be given adequate time to design and source additional equipment to operate in any alternative bands.

THIS COMES AT A TIME OF SIGNIFICANT STRUCTURAL CHANGE

- The Government's Digital Dividend decision and moves to re-organise and re-allocate the 2.5 GHz band come at a time of significant long-term structural change in the free-to-air television industry.
- Beyond the current economic conditions, the industry is facing fragmenting audiences and declining revenue share as well as competing with new market entrants and competitors not subject to the same regulatory obligations.
- The industry faces an unknown impact from the NBN and the expected influx of competing media services on that platform. While the economic downturn is cyclical, fragmentation and reduced ad revenue share will not abate while content costs will continue to rise.
- The significant costs of the digital transition, the very high fixed costs of public service obligations, reduced spectrum access and the emerging range of competing viewer options will potentially impact the value of a commercial television licence.
- Successive Australian Governments have chosen the advertiser-funded television model to deliver public policy outcomes and any threat to the long-term viability of the platform will also threaten the continued delivery of public policy outcomes.
- The impact would be felt most immediately in terms of local content production and in the delivery of other public service outcomes such as children's content, news and current affairs and free, universal coverage of major sporting events.

REGULATORY SETTINGS MUST CHANGE

- The regulatory framework for free-to-air television was developed in a pre-digital environment and the position of the industry has changed dramatically since that time.
- The current regulatory framework which predates the introduction of pay TV, the internet, IPTV and the general convergence of media is well out of date.
- The advent of the NBN is a game changer for everyone and has increased the need for a review of the entire media landscape.

- The emergence of a new range of television-like services also raises questions regarding the appropriate regulatory framework for existing television services.
- Commercial free-to-air broadcasting has traditionally been subject to a high degree of regulatory control.
- These regulations achieve a number of important public service outcomes. However, they also impose significantly higher costs.
- As the mix of broadcasting-like services evolves, it is appropriate to review the existing regulatory environment.
- From Free TV's perspective, we will be looking for a more level regulatory playing field. Free TV broadcasters shoulder the majority of the regulatory burden in relation to local content and we are the only platform subject to licence fees.
- As you know, the Government has announced a temporary licence fee rebate for 2010 and 2011 as we commence analogue switch-off.
- Research commissioned from Venture Consulting has highlighted that Australian broadcasters pay significantly higher fees than comparable markets by a factor of 10 and we will be looking for further ongoing licence fee relief.
- It is worth noting that broadcasters have paid \$3.8 billion (CPI adjusted) in licence fees over the last fifteen years.
- This is far in excess of the returns from any spectrum auction in that period. The highest fee paid by telcos was in 2000 when \$1.8 billion (CPI adjusted) was paid by four telcos with the highest fee paid by Hutchison being \$908 million (CPI adjusted).
- We have not yet formed a detailed view on all the issues that will be reviewed, but it is clear that in a converged media environment, the Government, broadcasters, the wider industry and the community should have a debate about how important social and cultural objectives will be delivered in the future.

NBN

- I'd like to make a few comments about the NBN and the challenges and opportunities it presents for free-to-air television broadcasters.
- In relation to television services, much of the discussion related to the NBN revolves around its potential to deliver high-quality audio-visual services without use of scarce radiofrequency spectrum.
- The Minister is expecting hundreds of new IPTV channels which we understand are unlikely to be treated like broadcasting, not subject even to the pay TV rules.
- All this will be occurring in the context of the substantial investment broadcasters have made in the digital platform – over a billion dollars to date and more to come.
- In our view, this investment and the services provided should not be put at risk by what is, in effect, a government subsidy for new services that are not subject to the same level of regulation.
- Terrestrial television broadcasting remains the most effective means of distributing high-quality audio-visual content to large numbers of people.
- It should be noted that all the new services slated to be on the NBN are likely to be delivered to consumers in return for a subscription fee.

- We also asked the Government to examine the pricing and traffic management practices of carriers and ISPs and the potential for discrimination against certain content or content providers.
- And we've asked for principles to be established which allow broadcasters to negotiate for the retransmission of their broadcast signal on IPTV services.

CONCLUDING REMARKS

- Summing up despite the challenges facing us in the new digital world, free to air television remains vibrant and exciting.
- This year alone programs such as *The Pacific*, *Australia's Got Talent*, *Underbelly*, *Top Gear*, *Masterchef* and *NCIS* have all delivered consolidated audiences (metro and regional) of over 2 million and an average of 13.2 million people are tuning in to Free TV every day.
- Free TV's multi-channels are attracting significant audience share and PVR technology along with on-line catch up TV services are providing viewers with more opportunities to watch more of their favourite programming, when they want to watch it.
- Freeview is helping to drive awareness of the benefits of the digital free to view platform – more channels, better pictures and better sound and the potential to benefit from new technologies in the pipeline.
- Later this year there will be more digital channels and an industry EPG.
- With sensible policy decisions and good planning there should be a strong future for free to air television and the new competing media services in which viewers are the winners!