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Dear Dr Pelling,

I am writing in response to the invitation to provide views in relation to the recent discussion paper, 'Meeting the Digital Challenge: Reforming Australia's Media in the Digital Age'.

As you know, Sony has had a long-standing interest in issues to do with digital conversion. In this letter, Sony has outlined its views in response to a number of the matters raised in the discussion paper that relate to Digital TV (DTV) and High Definition TV (HDTV).

## **PART 1 - A ROADMAP TO DIGITAL CONVERSION**

### **• Digital Action Plan**

Sony supports the Government's proposal to develop a Digital Action Plan (DAP) to expedite digital conversion. Sony agrees that the DAP should be released in 2006.

Sony also agrees that the DAP should contain:

- i) a roadmap to guide the process and a time frame for the closure of analogue television services in Australia;
- ii) measures aimed at providing appropriate incentives to broadcasters, receiver manufacturers/importers and others to move to digital television;
- iii) appropriate incentives and potential assistance that may be required for consumers to move to digital television; and

- iv) the roles that various stakeholders and agencies would play in working together to achieve switchover, including the potential formation of a dedicated new organisation to oversee and co-ordinate the activities necessary to achieve analogue switchover.

Sony has provided below some thought on what other issues the DAP should consider to further drive digital take-up.

Sony agrees that the DAP process should involve Government and industry, including broadcasters, equipment manufacturers, retailers and other stakeholders. A mechanism such as the UK's SwitchCo provides a useful model for Australia to follow.

- **The Timetable and Plan for Switchover**

As far as the timetable for analog switchover is concerned, Sony has previously expressed its opinion that the current rate of DTV take-up will not allow for analog switch-off to take place from the end of 2008.

However, Sony believes that it will be vital for the success of digital broadcasting that a Government decision on an early shutdown of the analog network is made, and announced, as soon as possible. Sony has previously recommended that the start of the switch-off process not be delayed beyond the end of 2010. The Government should have as its objective the complete switchover by the end of 2012.

The decision to switch-off must involve a 'hard' date, which is not subject to any other market triggers or targets. If the Government's policy of digital conversion is to be achieved there is a pressing need for clarity around the analog switch-off date and decisive action must be taken to implement quickly the decision to close down the analog network.

Sony believes that consumer uncertainty created by the current situation, where analog continues to operate while attempts are made to promote digital, is a major obstacle to higher rates of consumer take-up of DTV.

As noted in the Discussion Paper, there are other reasons that encourage an earlier, rather than later, move to switch-off, including the costs of maintaining two transmission systems and the alternative uses for spectrum currently used for simulcast purposes.

Sony strongly urges the Government to determine quickly, and then to announce, a firm date for the national shut-down of the analog network. A decision to shut down the analog network will focus the efforts of all stakeholders on the success of digital conversion. It will assist consumers with their purchasing decisions and will also assist the equipment supply industry with product planning, which is necessarily long-range. The Government's decision should be announced well before the end of 2006.

- **Technical, regulatory and other measures to encourage consumer take-up and the vacation of analogue spectrum**

There are extremely encouraging signs with consumer acceptance of DTV and HD. Market research by Digital Broadcast Australia (DBA) shows a significant increase in the sale of DTV units sold in Australia, with consumers adopting the technology at an accelerating rate. This reflects the ability to convince consumers who are in the market to buy a new TV of the desirability of DTV. DBA's research also shows that of the 218,000 units sold to retailers and installers in the December 2005 quarter, 35% had HD receivers, despite the current price premium relative to Standard Definition (SD) digital, fewer available models and limited HD programming. Sales of HD receivers in the December 2005 quarter were double the sales of the December 2004 quarter.

The message is clear. Consumers are adopting DTV at an increasing rate, and are moving rapidly towards larger, widescreen sets. Importantly, consumers appear also increasingly to be 'future proofing' their DTV purchases by moving to HD. The growing trend towards HD will continue.

Reflecting the consumer's increasing interest in adopting HD and the inevitable move to this technology, Sony is currently re-positioning its TV product range to HD displays. Of Sony's range of 17 consumer LCD TV's, front projectors and rear projection TV's, 15 are HD, capable of a resolution of 720p or more. In addition to this, as of April, Sony is shipping LCD TV sets with HD set-top boxes (STBs) or bundling HD Personal Video Recorders (PVRs) with TVs. Later in the year Sony will also introduce HD integrated TV sets.

It has, however, proven more difficult to convince consumers who are not updating their TVs of the benefits of DTV, in spite of the increasing availability of attractively priced consumer equipment. In Sony's opinion, this can be attributed to a range of factors including:

- continuing analog TV transmission and the uncertainty about the eventual shutdown of the analog network;
- insufficient digital content and program choice to demonstrate clear consumer benefits; and,
- insufficient and inadequate consumer education and promotion of DTV by industry and Government.

Sony believes it is important that the Government focus on a number of priority issues to encourage consumer take-up of DTV. Announcing a 'hard' date for analog switch-off is a key step in transitioning to DTV.

Other important issues that Sony believes should be considered in the context of the development of the DAP are:

- **Undertake More Effective Marketing and Consumer Education:** Significant marketing and promotion of DTV/HD is vital to educate

consumers and encourage the move to digital. However, the reality is that there has been relatively little marketing of DTV/HD to date from all stakeholders: Government, broadcasters, manufacturers and retailers. While there has been some advertising by the networks, there has been no high-profile, extensive and co-coordinated promotional campaign. Effective marketing has certainly been hindered by the limited digital programming and services being offered and the uncertainty around the analog switch-off date. Now is the time, however, when Sony believes that there must be a much greater commitment on the part of stakeholders to marketing and promotion to support the drive to digital conversion. There must be a forceful communication to consumers about the imminent end to analog TV and the need to move to DTV. This strategy will primarily need to focus on TV-based advertising to ensure direct and effective communication with viewing audiences but should also encompass more (and more effective) in-store promotion and education.

- **Compulsory Labelling Requirements:** Sony agrees that more detailed labeling on consumer equipment should be part of a comprehensive marketing and education campaign. An approach similar to that proposed in the US (that would require analog equipment to indicate that it will not be able to receive programming unless connected to a STB after switchover to digital) could be adopted in Australia.
- **Eliminate Confusion Over HDTV Standards:** A key issue that must be addressed in order to remove consumer confusion is the fact that in Australia there are three so-called HD standards, namely 576p, 720p or 1080i. Sony believes it is important for any HD transmission standard to deliver a level of picture quality that is demonstrably superior to SD. In Sony's opinion, 576p is clearly not HD quality and it should not be promoted to consumers as such. It provides no improvement in horizontal resolution over SD and only a marginal improvement in the vertical resolution. Its shortcomings are particularly evident on larger, wide-screen TVs, which is the type of display that is increasingly being adopted by consumers in Australia. Nowhere else in the world is 576p considered to be an HD standard. In Sony's opinion, the minimum transmission resolution that should be recognised as HD in Australia, and that should be allowed to be promoted as HD, should be 720p, with 1080i being preferred. Australia should not continue to remain out of step with worldwide standards.
- **Support for HD Programming:** HD TV is clearly the future of DTV globally; SD is an interim technology. It will, therefore, be important to promote and support the availability of HD content as a driver of DTV. At the moment there is insufficient HD content being broadcast in Australia to create significant differentiation from that offered on analog channels. Sony believes that the introduction of the HDTV content quota has been an important tool to demonstrate the benefits of HD technology to Australian consumers. Sony is

keen to see a continuation and a substantial increase of the HD content quota as it will further support the Government's policy of digital conversion. This point is discussed in more detail below.

- **Mandate Integrated Digital Tuners:** Requiring manufacturers to integrate digital tuners in televisions sold in Australia would further drive consumer take-up of DTV and encourage broadcasters to provide a stronger DTV/HD content offering in the knowledge that there is a growing customer base for this content. The US model, which requires TV sets of certain sizes to include digital tuners by specified dates, could be adapted for Australia. In addition, Sony believes that there should be a mandated requirement for all integrated DTVs and STBs to decode both HD and SD signals. This will be important to minimise legacy issues given that the future of TV is widescreen HD. It will be important to act quickly on mandating integrated digital tuners. At the same time, it will be necessary to provide equipment manufacturers with a reasonable lead time to prepare for these changes.
  
- **Establish a Test/Conformance Centre:** The evolution of DTV technology will lead to new innovations and a degree of uncertainty about their impact on current consumer equipment. Sony supports the idea that industry and Government should cooperate to establish a local testing and conformance centre. This will ensure that consumers have a greater degree of confidence in the operation of digital products against agreed standards. There are a number of models for the establishment and operation of such a centre. Sony believes there is merit in a 'user-pays' approach, whereby equipment suppliers and broadcasters would pay a centre operator for providing test services. Ideally, Government should have a significant role in the centre, perhaps through providing start-up funding.
  
- **Encourage/Require Electronic Program Guides:** Personal Video Recorders (PVRs) will further enhance the DTV experience and drive digital take-up by allowing consumers to have greater choice and flexibility in their TV viewing. Crucial to the success of PVRs are suitable Electronic Program Guides (EPGs). However, in Australia insufficient EPG information is being transmitted by the FTA broadcasters. This continues to be a major issue for consumers and equipment suppliers and remains an obstacle to increasing acceptance of DTV.

## **PART 2 - ENABLING A DIGITAL ENVIRONMENT**

### **2.2 EXPANDING SERVICE OPTIONS FOR EXISTING FTA BROADCASTERS**

- **Multichannelling**

Sony agrees with the Government's preferred option of removing genre restrictions on multichannelling by the National broadcasters as soon as practicable.

However, Sony urges the Government to remove the current restrictions on multichannelling by commercial broadcasters now rather than waiting until the end of the simulcast period, which is likely to be more than six years away.

Sony is firmly of the view that take-up of digital television is driven by the ability to access a wide range of digital programming. Sony believes that overseas experience (eg, in the UK) demonstrates the advantages of multichannelling in encouraging further take-up of digital services. In the UK, DTV take-up has been driven by increased consumer choice and program availability and has now reached the stage where the country has been able to make significant progress towards a timetable for analog switch-off.

However, the current Australian digital framework severely limits the consumer's access to digital content through the Free to Air (FTA) commercial and national broadcasters. From a consumer perspective, at this point in time, there is little to differentiate analog and DTV programming; it is not yet a compelling consumer proposition to convert to digital.

It is important that Australian broadcasters have the ability to significantly increase the transmission of digital programming. This will further encourage the take-up of digital TV services.

In this regard, Sony believes that the national broadcasters have a role to play through offering new digital services (eg, digital only channels such as ABC2 and SBS' multichannels).

Sony believes that the opportunity should be offered to commercial FTA broadcasters to multichannel as this will encourage Australian consumers to move to DTV. It should also not be overlooked that multichannelling provides an opportunity for broadcasters to develop new programming, marketing and advertising business models, which will benefit consumers and the broadcasters. As multichannelling reaches a critical mass of viewers, Sony would expect multichannel providers to be able to source new, additional advertising revenue streams.

Sony notes the proposal in the Discussion Paper to introduce flexibility for broadcasters by removing the requirement that the HDTV version of a broadcaster's digital service be a simulcast of its SDTV service. Sony supports this proposal and encourages the Government to implement it as soon as possible, and certainly by 1 January 2007 as mentioned in the Discussion Paper. This is discussed further below in the section on HDTV.

- **High Definition Television**

The Discussion Paper identifies several preferred options in relation to HDTV, including:

i) The current HDTV quota of 1040 hours per year would be retained until the end of the simulcast period, consistent with the transitional nature of the current policy settings and the Digital Action Plan.

ii) As an interim measure, from 1 January 2007, the Government could remove the requirement that the HDTV version of a digital television service be a simulcast of the SDTV service. This option would effectively allow FTA TV broadcasters to run one multichannel in HDTV in advance of switch-off.

Sony supports both of these preferred options. In relation to the latter, Sony believes it is important that there is a greater opportunity to showcase the benefits of HD than currently exists. Providing broadcasters with the ability to operate a HD channel that is clearly differentiated from analog and SD will be attractive from the consumer's perspective and undoubtedly assist with the DTV transition process. As noted earlier however, Sony believes that consumers should be offered 'real' HD, ie transmitted at 1080i or 720p, in order to experience the undeniable advantages of this technology.

However, Sony believes that any consideration of policy options relating to HDTV needs to recognise its central role in digital broadcasting in the future. Major equipment manufacturers and the broadcasting industry more generally are convinced of the future for HD worldwide. It will not be a niche service; rather it will be the mainstream program production and delivery standard. In Sony's opinion, SD will be an interim technology until there is a full, worldwide switch to HD. This is not surprising given that HD is a wide-screen format which delivers amazingly real, lifelike images that simulates cinema film quality. It delivers a resolution and quality of sound and vision which is up to five times superior to SD format.

In previous submissions Sony has detailed overseas trends with respect to HDTV. We are now seeing the inevitable global move towards HD television production and broadcasting. In the US the choice for consumers is essentially between analog or HD TV, and HD continues to gain strength. Moreover, a strong indication of the future business opportunity presented by the HD world is that it has attracted major new industry players with no previous history in television such as Hewlett-Packard, Dell, Motorola and Gateway.

Europe is now beginning the process of transitioning to HD. The debate now is about the rate of adoption. There is no doubt significant growth will occur over the next five years or so, further boosted by large events such as this year's World Cup and the Olympic Games in 2008. In the UK, the BBC is developing plans to produce all its TV output to meet HDTV standards by 2010. Other European countries are now recognising the advantages of HD over SD and will increasingly embrace HD.

Globally, the trend towards HD production of not only feature films and television series, but also news and current affairs programs is increasing. In this regard the position and strategy of Sony Pictures Entertainment (SPE) is relevant. Through its SPE business,

Sony is the owner of the largest programming library in the world, including Columbia, TriStar and now MGM, and is a major provider of HD content for film and TV. SPE sees the future as being a HD future for both film and TV. The company is creating a HD version of every new film shot. SPE is also continuing to transfer popular titles from its library to HD format.

In addition, SPE is increasingly producing TV shows in HD and creating HD versions of other TV programs. The vast majority of new television programs and new features released in Australia to FTA networks by Sony Pictures Television Pty Limited is available in HD format.

Sony, as the number one supplier of HD format production equipment supplied to broadcasters in Australia and around the world is seeing clear evidence of TV networks investing in HD to support their future strategic business directions. In Australia, all FTA networks have made a significant investment in HD production equipment.

As noted above, there is a sizeable and growing consumer demand for HD as the next step up from SD. Consumers appear increasingly to be 'future proofing' their DTV purchases by moving to HD. To meet the growing demand, manufacturers are producing more HD products, not only TV equipment but cameras, recorders, personal computers and games equipment.

For example, Sony has already introduced HD Handycam recorders to the Australian market. Next generation computer gaming will also utilise HD, with a number of manufacturers planning to introduce this technology to the market shortly. Sony's PlayStation 3 (PS3) will utilise BD-ROM (Blu-ray Disc ROM) with a maximum storage capacity of 54 GB (dual layer), enabling delivery of entertainment content in full HD. The global popularity of gaming will provide powerful leverage to the growing HD market. It will create an expectation amongst a significant and growing market demographic that HD should be the standard display technology and that HD content should be ubiquitous.

This move, globally and in Australia, is clearly driven by the consumer's demand for the highest quality of sound and vision, and replicates the success of DVD equipment. Consumers, when offered the compelling quality of HD, do not choose to revert to the lower standard seen in SD and analog.

Presented with the evidence of HD adoption at the production, broadcast and consumer levels around the world, Sony believes it is indisputable that HD will be the future of digital TV and related display devices.

Against this background, and the view that the transition to digital will inevitably mean a transition to HD, Sony believes that the mandating of HD for Australia has been the correct decision. This has implications for Government policy. A key issue will be to continue to promote and support the availability of HD content as a driver of DTV, and more specifically HDTV, take-up. It will also be vital to deliver increasing levels of

content to match the high resolution display capability of the increasing numbers of HDTVs.

Sony believes that the HDTV content quota has been an important tool to demonstrate the benefits of HD technology to Australian consumers. Given the investment already made in HD by both FTA broadcasters and consumers, Sony would now expect there to be a level of HD content broadcast whether a HD quota exists or not. However, the issue should not be about accepting the current, relatively low level of HD programming, but adopting a mechanism that can quickly and effectively support the transition to full HDTV.

At this point in time, Sony believes that there is insufficient HD content being broadcast in Australia to create significant differentiation from that offered on analog/SD channels. This is an inhibitor to encouraging consumer acceptance of DTV and HD in particular.

Sony believes that the Government must retain, and even strengthen, its commitment to HD programming as it can be a compelling proposition to encourage DTV take-up. HD programming is now widely available. All FTA broadcasters can easily meet the 1040 hours quota requirement. As noted above, globally production of HD content is increasing with many TV programs and films already being shot in HD format. This trend will only increase. Australian broadcasters can already source significant HD TV content. Sony strongly supports the continuation of the HD content quota, and believes there is merit in increasing the HD broadcasting requirements. This will encourage the networks to provide consumers with more choice of HD programming and will further support the Government's policy of digital conversion. If the networks broadcast increasing levels of HD programming more consumers will be attracted to convert to DTV.

Sony does not believe that an increase in the HD content quota will impose a burden on broadcasters but it will accelerate the introduction of HDTV. Accordingly, at this early stage of HD in Australia, Sony recommends that the HD content quota should continue to remain part of the digital TV regulatory framework at least until the shutdown of the analog network.

Sony also believes that the HD quota should be revised to require the broadcast of a minimum percentage of locally produced HD programming similar to the analog local content requirement. This initiative would help to boost the local HD production industry as currently there is little non-studio based local HD production broadcast. As a result, consumers are deprived of appealing, Australian HD content such as drama and sports events, which are demonstrably a driver of TV sales and will contribute to digital conversion.

Sony believes that Australia must also build its local HD production expertise in order to continue to be competitive on the world market in television and film production. A local HD content requirement, and the ensuing HD production, would help position Australia to be a regional HD production centre and exporter of content.

Sony would be pleased to respond to any questions that DCITA might have in relation to any of the matters raised in this submission.

Yours sincerely,

Carl Rose  
Deputy Managing Director