

From the Executive Director

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The Digital TV Rip-Off

IN the long history of blatantly protectionist decisions on the media, the Howard Government's decision on digital broadcasting takes the prize.

The decision will restrict competition in an industry dominated by media moguls. It will limit choice and increase costs to consumers. Most importantly, it will hinder access to new, converging technologies. All this to protect the existing free-to-air TV providers from competition.

The Government's digital decision, announced in March 1998, requires all existing free-to-air broadcasters to commence broadcasting digital TV in metropolitan areas by 1 January 2001—and in regional areas by 2004—while continuing to broadcast all material on the present analogue system to at least 2009.

To assist with the cost of shifting to a digital system, the Government lent each of the existing players, free of charge, 7 megahertz (MHz) of spectrum for digital broadcasting and allowed them to rent enough spectrum to continue the analogue system.

Ensuring the adoption of a common format and that all players change as soon as feasible and at the same time probably requires some regulation. Given the forced and costly nature of the conversion, an incentive in the form of free spectrum is appropriate.

The Government's gift-giving went far too far, however. One of the main benefits of digital technology is that it allows the broadcasting spectrum to be used more efficiently. Under the analogue system, a single TV channel requires at least 7 MHz of spectrum (with considerable further spectrum being needed as a buffer between channels). Under the standard definition digital system, a single channel requires only about 2 MHz of spectrum (with minimal spectrum required for buffers). The Government gave existing participants about 250 per cent more spectrum than was required to provide the existing service under a digital system.



The decision not only gave away a very valuable asset to corporate interests—worth at least \$600 million—but effectively locked out the entry of new competitors over the medium term. A pro-competitive decision would have been to give existing players 2 MHz of spectrum—enough to provide the current single channel—and then to have auctioned the remaining spectrum to existing players and new entrants.

The Government also mandated that the existing commercial free-to-air TV broadcasters adopt spectrum-hungry high definition television (HDTV)—something no other country has done—and prohibited them from providing multiple TV channels.

The ABC and SBS were again given special treatment. They do not have to adopt HDTV and can provide multiple channels—showing once again that government ownership leads to special treatment. Not that the commercial TV companies are too worried—the public broadcasters provide little effective competition and, more importantly, are willing to use their clout with government to help keep out new competitors.

The HDTV mandate will greatly limit the benefits to consumers of converting to digital TV. Consumers will receive only four channels instead of 12 or more. To receive the benefits of HDTV, consumers will have to buy a new HDTV set—which is expected to cost over \$8,000—and view material made using HD format. Yet, for the foreseeable future, there will be minimal content available in HD format, and few

people will be willing or able to fork out \$8,000 for a TV set.

Even consumers who choose not to buy an HDTV set but wish to access the digital system will be penalized. In order to receive a digital signal, an analogue set must be connected to a decoder. Whereas a decoder for standard definition digital format costs around \$500, the decoders for the proposed HDTV are expected to cost at least \$1,500 each.

Obviously few people will bother to convert to the digital system: most will simply continue to use the analogue system. This will, however, please the existing players. They already dominate the analogue system. More importantly, the analogue system keeps potential competitors at bay by wasting spectrum. The analogue system requires something like 350 MHz of spectrum—or 90 per cent of the available spectrum. Until the analogue system is phased out, there is very limited scope for new players or services.

The Government is now trying to add another protective layer by regulating the nature of 'datacasting' to prevent it from resembling broadcasting and so be a route for new entrants and for competition to the existing free-to-air and pay TV broadcasters. This will also prevent datacasters from providing services—such as Internet access—which consumers are likely to value very highly: indeed, from overseas evidence, more highly than TV services.

The protective layer proposed by the Government is so perverse that even a number of the commercial free-to-air broadcasters—such as Channel 7 and Jamie Packer—are beginning to have second thoughts. They are quite rightly concerned about becoming Antipodean oddities created by, and whose existence depends upon, the whims of government rather than the desires of consumers.

Thankfully, the deal is not stitched up and the Government is rightly being ridiculed for its decisions. The Productivity Commission has also mapped out an escape route.

The lesson is simple: we have to get government out of controlling the media and allow the market—and consumer choice—to rule.

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REVIEW