



**TRANSCRIPT
OF PROCEEDINGS**

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PRODUCTIVITY COMMISSION

INQUIRY INTO THE BROADCASTING SERVICES ACT 1992

**PROF R.J. SNAPE, Presiding Commissioner
MR S. SIMSON, Assistant Commissioner**

TRANSCRIPT OF PROCEEDINGS

AT MELBOURNE ON MONDAY, 7 JUNE 1999, AT 9.02 AM

Continued from 28/5/99 in Sydney

PROF SNAPE: Welcome to this the first day of the public hearings in Melbourne for the inquiry into broadcasting conducted by the Productivity Commission. It's a continuation of the hearings of course that started in Brisbane a couple of weeks ago and then we had a week in Sydney. The terms of the inquiry are specified in the terms of reference sent to the commission by the Commonwealth treasurer. Copies of the terms of reference are available on the table near the entrance. The inquiry encompasses all aspects of broadcasting covered by the Broadcasting Services Act 1992, subsequent amendments and associated legislation. It covers free-to-air television and radio, pay television and radio, community and indigenous broadcasting, datacasting, narrowcasting, digital conversion and some aspects of the Internet. Regulation of content, Australian content and children's content, for example, ownership and foreign investment are all embraced but the legislation setting up the ABC and SBS are not.

The commission has to give particular attention to the requirements of the competition principles agreement. This specifies that any legislation which restricts competition should be retained only if the benefits to the community as a whole outweigh the costs and if the objectives can be met only through restricting competition. The terms of reference give emphasis to social and cultural considerations as well as to economic, to the effects of technical convergence, to cultural diversity, plurality of opinion and fair and accurate coverage of matters of national and local significance, to respecting community standards and to protecting children.

The public hearings provide the opportunity for interested parties to make oral presentations. Generally this is in the form of speaking to their written submissions. They provide an opportunity for the commission to seek clarification and to pursue with participants matters of particular interest to the commission. Transcripts are made of the hearings and are normally available on the commission's Web site within three days of the relevant hearing. Transcripts are sent to the relevant participants. At the end of the scheduled hearings today I shall invite any persons present to make oral presentations should they wish to do so. I should mention that the last scheduled participants, Southern Star Group Ltd, have in fact decided that they can't appear today and have withdrawn so we may finish a little bit earlier than was scheduled.

I now turn to the Australian Broadcasting Corporation, our first participant today, and we have a number of representatives from the corporation. I would ask each of you, if you would, to identify yourselves for the purposes of the transcript and then Mr Johns, I think, you will be making an oral presentation to summarise your very helpful and very lengthy written submissions. Thank you very much.

MR JOHNS: Thank you, professor. Brian Johns, managing director of the ABC.

MR KNOWLES: Colin Knowles, head of technology for the ABC.

PROF WITHERS: Glen Withers, consultant for the ABC.

PROF SNAPE: Mr Johns?

MR JOHNS: Professor, as you know, the ABC has made a detailed submission to this inquiry. We have provided to the commission an economic argument for the presence of an adequately funded and resourced public broadcaster in the Australian broadcasting market. This economic analysis was prepared by Prof Glenn Withers who will be happy to answer any questions from you. I have Colin Knowles, the ABC head of technology, strategy and development and formerly of the ABA whose expertise in digital technology may assist the commission on issues relating to the role of technology in the changing broadcasting market. I also have with me Dr Julianne Schultz, the ABC's general manager, corporate strategy and communications and Michael Berg, a senior policy and legal adviser. Julianne and Michael were responsible for the preparation of the ABC's submission which you so kindly commented upon and can respond to any questions you may have about its detail.

However, this morning I would like to focus the discussion on the mechanisms for achieving the public interest principles of public broadcasting. This is where the ABC has the greatest interest in the commission's review, but it is not special pleading. The public interest, the social and cultural value of broadcasting, is in the broadest possible interest as the terms of reference of this review recognise. The key public interest principles are set out in the act. They are, as described in your terms of reference which you've already referred to:

Promoting a sense of Australian identity, character and cultural diversity, encouraging plurality of opinion and fair and accurate coverage of matters of national and local significance.

Nowhere in the debate triggered by your inquiry have I heard these principles challenged. A number of regulations are in place under the BSA to assist in achieving these public interest outcomes: regulations which support Australian content levels and regulations which seek to limit ownership including cross-media ownership, foreign ownership and market dominance. In the context of this review there has been relatively little debate to date on the effectiveness of regulation for local content. Our position as expressed in our submission is that local content regulation in television has been vital to meeting the demand for Australian information and entertainment. Before Australian content regulations on television were established there was a clear failure in the market to recognise, let alone meet, this demand. This was not just in the media but in other cultural areas including film, performance and publishing. This has been a notable regulatory success and one which over many years I have been very well aware of. Particularly in the case of the ABC it has been a funding success.

In contrast to issues surrounding local content, the effectiveness of ownership regulation has been the subject of considerable debate at the commission's hearings. Of course the ABC is not directly involved in the particulars of cross-media and foreign ownership regulation but we do have an interest and a strong role to play in contributing to media diversity. Our view on ownership regulations as expressed in

our submission is that these regulations have limited the further concentration of media ownership. There is indirect evidence of this which we and others have cited in submissions. Since restrictions on market dominance in the radio industry, for example, were removed ownership has become more concentrated and content output more centralised. The question which arises, however, is whether these regulations of themselves are sufficient, or some would even say, necessary, to protect media diversity and local identity in this new technology environment characterised by convergence, globalisation and the multiplication of delivery forms.

We have argued that they have never of themselves been sufficient and that the central role of public broadcasting within the industry has played a key role. It will continue to play a key role provided that national broadcasting is adequately funded by government and that we retain our comprehensive brief. But there is a third prerequisite for the ABC's continuing effectiveness: access to the delivery of content delivery forms which are emerging. I will address these particular concerns later in these remarks. The commission will well understand that the character of the Australian broadcasting industry has been formed as much by its unique structure as by the effectiveness of ownership and content regulation. The Broadcasting Services Act supports this unique structure through its recognition of sectoral diversity, the regulation of distinct commercial, national and community broadcasting groups.

Under this structure the ABC and commercial networks operate in the same market but our objectives, operating parameters and standards are different. National public broadcasting is a mainstream pillar of the industry alongside the commercial sector. By maintaining this structure we have an adjunct and an alternative to regulation, ensuring that public interest outcomes are adequately met by the market. The success of decisions of governments to fund public broadcasting is a relatively simple and transparent means of meeting market failure in the industry, in many ways avoiding the market distortions of regulation. These are the economic arguments addressed and outlined in Prof Withers' report. There is ample evidence that the presence of public broadcasting as part of a sectorally diverse industry has been an efficient and effective tool.

First, the presence of public broadcasting has contributed to media diversity. The diversity is sourced from the non-commercial mandate of public broadcasting and its public interest charter. Its programming meets the needs of audiences as citizens, not consumers, and programming risks can be taken without commercial pressures. Its public ownership also means that the ABC must cater to the diversity audience needs. It is a multi-faceted organisation, the ABC, with production created in every corner of Australia and responding to a range of constituencies - rural, urban, youth, to name but a few. Comparisons between public broadcasting programming and commercial programming, details of which we have provided in our submission, show a distinctive difference in the pattern of programming on the ABC and SBS television - more documentaries, more prime time use analysis, more specialist programming. In radio the ABC offers by example the only 24-hour news service, the only national classical music station and the only station offering in-depth specialist programming, Radio National. Our on-line regional service is unmatched anywhere in the industry.

Through this package of ABC services every corner of Australia has access to a comprehensive range of broadcast programming, meeting the needs of audiences for international, national and local programming. Much of what is on offer to Australian audiences would not be available without the ABC. The ABC's achievement in creating diversity in programs, services and opinion is matched by its contribution to local content. This contribution offers more than sheer quantity. We have achieved a qualitative improvement in Australian content, setting new standards in areas such as drama, documentary, comedy and in radio programming where we provide, for instance, a balanced and objective approach to talkback radio - just one example.

The ABC has at times played an industry role in the research and development of local programs. New programming genres developed by the ABC, for instance in infotainment - The Home Show, Holiday, Every Body - have been taken up by the commercial sector once their popularity has been established. The independence of our news services consistently stands as a benchmark to the industry as a whole. This service is unique in its capacity to gather news from every corner of Australia. It's a truly national service. The ABC's central presence has not only been effective, it has also been efficient. Prof Withers in his economic analysis again develops these arguments. Here I will give you a potent example of this efficiency. The ABC's investment in online service of less than \$5 million over the past three years has produced a service which some sectors of the market speculate could be valued as high as \$500 million. This return on investment is unlikely to be matched by any other media organisation, and we have done this by efficiency and by innovation.

The presence of the ABC has been both effective and efficient in meeting public service objectives, not because we have competed in the market but because we are highly accountable and the public for our expenditure and for meeting our charter obligations. Again, these are arguments addressed by Prof Withers. We must also be efficient because our economic rationale is cost not price based. Programming budgets can never be inflated because of high advertising revenue. I'm arguing today for the enduring value of public broadcasting as part of our unique - and I use that word very carefully - unique system of sectoral diversity. Tomorrow's media world will be very different. I believe that the principles of sectoral diversity and the centrality of public broadcasting nevertheless will be even more valid - more valid as we face the new media environment.

As distribution outlets multiply and global content expands there will be a growing need for quality markets, benchmarks and brands that support local identity. The ABC can provide both a distinctive and an Australian contribution. In this new environment the commercial industry will of course play a key role. However, commercial networks face the daunting task of not only adapting to a new technology but also developing new revenue models. With the potential fragmentation of advertising and the growth of transactional revenue conservative decisions might well be taken in the face of these changes. Without adequate funding the ABC can take the lead in developing new media forms. We have done it on online, trialling audience acceptance for new services such as multichannelling and datacasting in a risk-free,

non-commercial zone. The ABC, I put to you, is in a unique position to provide this future public benefit at reasonable cost.

Earlier I used the example of ABC online as a mark of our efficiency. We achieved this remarkable growth not simply by good management but because the ABC in this new media age has a remarkable set of advantages. We have a scale of operation and a spread of skills across radio and television which in combination give us the capability of entering new multimedia markets. We have production centres in 57 locations across the country, allowing us to respond immediately to the opportunities for localism which digital technology offers as a counter for globalism. Our restructuring and workplace reform, fundamental, wide-ranging, deep, over the last three years are harnessing these advantages.

We are positioning ourselves very well for the future. Thus the ABC can continue to be an essential ingredient in the development of a broadcasting industry where public interest objectives can be balanced with market forces. Its effectiveness, however, will depend not only on the adequacy of the support it receives from parliament but also on an informed understanding of its contribution by all elements of industry, which is one of the very good reasons why we are here today. Decision-making about the delivery channel, whether it be terrestrial, cable or satellite it should not be shut-out by the potential dominance of proprietary decoders. The ABC has been proactive in ensuring it's presence.

I would like to recap just one point. I'd like to go back before I move into that area. I want to stress that the ABC's future, its development, cannot happen in isolation from the development of the broadcasting industry as a whole. There are three vital areas, areas that are vital to us: adequate funding, the maintenance of comprehensive broadcasting brief and an equitable access to all these new delivery forms. The ABC needs adequate operational funding, which is plain enough, to allow it to use it's resources efficiently and to maximum public advantage.

The public interest objectives of diversity, which I have been outlining, and Australian content, require public investment. This investment reaps rewards beyond the broadcasting services we deliver into the general community where funding for the ABC supports independent production companies, we support cultural organisations, in the educational sector, actors, writers to name but a few, in every state and territory. We also need to ensure that the ABC retains its comprehensive mainstream charter. For the ABC to provide effective diversity it cannot be artificially confined to corners of the market dependent of commercial programmers. Distinctiveness does not mean filling in the gaps. It means the ability to challenge the styles, genres and values of mainstream broadcasting as much as catering to specialist and diverse audience needs.

I've suggested earlier the demonstrable fact that we've been a pacesetter in programming and we've been that pacesetter in programming because we are a mainstream programmer. Its value to the industry and to audiences as a mainstream broadcaster outweighs its value as a niche broadcaster. Finally, while our ability to

make content is primary, the ABC needs the same delivery capabilities as the commercial sector. Equitable distribution of public broadcasting services is vital if it is to continue to play a central role. The ABC must be available in Australian homes no matter what the delivery channel, terrestrial, cable or satellite. It must not be shut-out by the potential dominance of proprietary decoders. The ABC has been proactive in ensuring its presence in as many delivery systems as possible.

We've talked about online. We've also, for example, completed bilateral arrangements for the carriage of our services on cable in advance of the government's retransmission legislation. These are important issues. However, the immediate concerns of this legislation are about access to new digital terrestrial spectrum. It is not for the ABC to comment on the terms under which access to this spectrum has been provided to the existing commercial networks, however, we have also argued to government that the national public broadcasters can do more than provide high definition television programming. They should be given the capability to use this spectrum for multichannel delivery. They should not, as the legislation provides, be charged for spectrum used in datacasting if the services provided are non-commercial and in the public interest.

These arguments are important for two reasons. First, we see the multichannelling and datacasting capabilities of digital television as an extension of our radio capabilities, where for years, through five networks, we've been able to deliver and to better cater to the diverse audience needs which we are required to meet under our charter. Second, we see multichannelling and datacasting as alternative ways to provide an incentive for audiences to take up digital services. We can be a pacesetter in other words. If, for economic reasons, the commercial sector cannot take up these opportunities, the ABC, for strategic reasons, certainly will. The ABC is not frightened by more choice. Our distinctive charter, our identity, our character, our quality programming means that we must embrace it. Thank you very much.

PROF SNAPE: Thanks very much, Mr Johns. As I said, it's a very helpful submission which you have given to us in various parts of it. Thank you for it. You've set out very well the argument which you have that the ABC should not just be a niche broadcaster but a mainstream broadcaster and yet supplying a different type of product and being more experimental etcetera. You speak about equitable access to delivery forms and yet there is a bit of attention, I guess, in it - there may be attention, I'd ask you to comment on it. If one is being a mainstream broadcaster, as you say, and you put that argument, and yet on the other hand in one of the attachments, I think it was page 48 of the bunch of attachments, you say that if the ABC was to be multichannelling from the beginning of digital transmission that would have no impact on the advertising revenue for the commercial free-to-air networks as a result of its multichannelling, which suggests that there is a break in the competition, that it's not going to be drawing - even though one is mainstreaming one isn't drawing customers away from the commercial channels but you also say - this intrigued me slightly in reading it - that you should be able to multichannel from the beginning of the digital conversion process at the time when there's simulcast but the commercials

shouldn't be. On the one hand you're arguing for equality of access but on the other hand it appears that you're arguing that that field should be tilted towards you, that in fact the commercial channels should not be allowed to multichannel until the date I think is 2007 at the earliest. I wonder if you'd like to comment on that, please?

MR JOHNS: I wasn't aware that we said that the commercials shouldn't be able to multichannel, rather we accepted that they weren't going to be allowed to multichannel.

PROF SNAPE: I think that it states in one of your attachments, if I can refer to pages 42, 43 - - -

DR SCHULTZ: The legislative framework provides for the - sorry, Julianne Schultz.

PROF SNAPE: And your position, please?

DR SCHULTZ: Julianne Schultz, general manager, Corporate Strategy Communications for the ABC. The legislation provides for - applies statement of intent that national broadcasters will be able to multichannel but explicitly excludes the commercial sector from moving into that area. That was a provision which was established essentially to maintain central balance across the industry. So we haven't actually taken a position on that, it's just that that's the legislative framework.

PROF SNAPE: In reading the attachments I thought that in fact you were saying that they shouldn't be able to do so. Maybe I misinterpreted that but that was the thrust that I got from it.

MR JOHNS: Professor, I'm just looking at the pages. If you notice we later - I've looked at pages 42 and 43 - anyhow, our position is not - if we've been ambiguous, and I don't see it here, but if we have been the position is that we're not saying what commercials should or should not be able to do. We are accepting that they are not going to be able to multichannel but we're certainly saying that we want to be able to multichannel. We believe that we will be able to use that multichannelling to tremendous advantage by building on our existing infrastructure.

As you will be aware, while we have the radio networks that we have, we only have one television network and, as I've said many times in many places, that network is clogged because there is just so much that, you'll appreciate, that we can put to air on one network throughout the country. Yet with the means of digital transmission that will be able to be unclogged and with digital production methods we will be able to fully utilise for the benefit of the country the existing infrastructure that we've got, the 57 radio stations, for example. Because of those improved production methods for making programs and the way that we've been re-organising the ABC to be bimedia, so that our staff are skilled both in television and in radio, we will be able to draw on those resources and have increased local programming, regional programming and state programming as a result and as a result of multichannelling we

would be able to utilise that material.

Now, I've put to you that the huge public investment that's been made in the ABC over the decades, that this is an efficient use, it's a capping up process, an efficient use of that existing investment. So we indeed are very keen to multichannel, just as we are very keen to have a presence in all of the new delivery mechanisms because we've already experienced the benefits that we've been able to achieve online, by building on the existing infrastructure and the existing resources, the human resources as well as the technical resources.

PROF SNAPE: Yes, thank you very much for that. It was in fact page 35 of that attachment which led me to the conclusion, rightly or wrongly, which I had drawn. It was there that you were quoting the objectives of the legislation:

It was understood that parliament intended to adopt a position which supported the ability of the national broadcasters to multichannel while prohibiting the commercial free-to-air broadcasters from multichannelling. This was designed to satisfy the policy objectives of limiting the potential competition with the subscription television sector, enabling national public broadcasters to better meet their charter responsibilities etcetera.

I took that as endorsement but let me put the question another way perhaps, or to refocus it. In some of the sessions that we had in Sydney we put it to a number of the participants that it may be possible to bring - what we were doing was investigating the possibility of bringing forward the date when the analog system could be switched off, partly because one can see the possibility in 2007 when very few people have yet at that stage got digital sets or indeed the capacity of getting digital there would be tremendous pressure at that time to extend the simulcast period. Understandable pressure for social reasons because it's likely that the lower socioeconomic groups in society may not have got the new technologies.

What we were doing was exploring the possibility of a basic set-top box or a chip which could be put in existing sets which would enable them to pick up the digital signal on their analog sets and be no worse off than they are at the moment, and if that were to be universally available through one means or another, that that could enable not only the switch off in 2007 but if it was brought much earlier, to do it earlier. That is to cease analog transmission much earlier. That would free up a great deal of spectrum that is being reserved under the existing arrangements for the simultaneous broadcast of digital and analog. As we know, that really does freeze a great deal of the spectrum and potentially lock out competition to coming in. So we're exploring that possibility. If that were to be done it would enable, as I say, the simultaneous transmission to cease, the freeing up of analog spectrum and it would no longer be necessary to prevent the multichannelling by the commercial channels presumably. Some of the rationale for that barrier would then perhaps have gone. How would the ABC feel about that?

MR JOHNS: Colin Knowles might like to speak to you about the technology issues

but let me say this in general whatever the technology, whatever the technology environment the ABC doesn't take a position that we want to limit the limit of commercials. I mean, that's a matter for government and that's a matter for public policies, the way the commercial sector is legislated for and provided for. What we want, what we're looking for is what use we can make of it and we're looking at - in the public interest - we're looking at what we can do and we see enormous possibilities for us in education and a whole range of areas as a result of multichannelling. We see enormous but not economic - but in programming and delivery opportunities in datacasting. So we're looking at the various technologies in relation to what we can do with them and what use we can make of them. We're not interested in restricting the commercials use for some competitive basis vis-a-vis ourselves.

PROF SNAPE: If I could just, before Mr Knowles speaks perhaps - if one was to see possibilities in the scenario that I was describing, that would mean that the ABC could cease - as well as the commercials - could cease analog broadcasting much earlier, and you've spoken in your submission of the costs of maintaining the simultaneous broadcasting of analog and digital. That would then be a big cost saving for the ABC to be able to cease analog transmission.

MR JOHNS: Well, we're certainly looking for any opportunity for cost-savings but, as I say, I haven't focused on that possibility because my advice hasn't been along those lines to this point. But perhaps, Colin, you might like to?

MR KNOWLES: Professor, I've seen the argument that's been advanced about the set-top box issue and I think, in terms of making the thing move quickly to close the analog, I think it's an interesting argument. On the other hand though, first of all, I think that the chip to go in the receiver is probably something of a pipedream because it's actually far more complex than the chip. It means the whole of the front end of the receiver in terms of the whole receiving component. So essentially what you're looking at doing is integrating a set-top box as a receiver, and even if it were as simple as the single chip the history has shown that the receiver manufacturing industry or repair industry is not the slightest bit interested in doing this because what happens is somebody sends their old VCR in to have the chip installed and of course it's actually broken, but when it goes back there's a major consumer issue that it was working before we sent it, and I know of some companies that have in fact been forced to actually replace the thing with a new one as a consequence of that and it therefore becomes a rather difficult problem.

The set-top box argument, on the other hand, does offer you some more scope but, once again, you probably need to provide a set-top box to go with each VCR and each television receiver in the household to actually achieve that, short of being able to pension off the receivers. That will give you the equivalent of your analogue reception on your - you'll give your digital reception the equivalent of the analog. What it doesn't do of course, it doesn't give any of the benefits that flow from digital receptions such as wide-screen and of course high definition. Those are the sort of issues which still need to be addressed.

I've seen wide ranges of prices quoted for some of these boxes. Interestingly enough, the prices that are quoted for some of these boxes tend to be the mature industry price of several hundred dollars, in other words, 10 years from now. You get the same argument of course for receivers. It tends to reflect the prices of today. I think we need to get some of those into some perspective. If we look back at back-and-white television, for example, it cost probably as much as the price of the family car, if not more. I recall in 56 the first back-and-white receivers cost nearly 1000 pounds; in colour we had about \$1000. What we see today of course is a very dramatically cheaper situation so I think that in all of these technologies, yes, the price is going to fall, and that's a given, and the technological capability would increase and therefore the possibility of a set-top box coming down to a reasonably cheap commodity item certainly is there. I think though that we are going to face a couple of years of lead time in manufacturers getting their R and D costs recovered before they will make those prices fall substantially. The cheapest prices I've been able to identify for a million-plus quantity for a set-top box is about \$450 for a very basic decoder box which would receive digital and do nothing more than convert it back to analog.

PROF SNAPE: At \$450?

MR KNOWLES: Yes.

PROF SNAPE: Thank you. It's actually at the suggestion of one of the participants in Sydney that I mentioned the chips. Until then I'd simply been speaking about set-top boxes and \$450 is also a little bit higher than some estimates we've had but perhaps, as you say, they were giving not initial costs but later costs. You speak about the economies of scale that you obtain in the size and then the variety of things that you're doing and the economies of scale that you get, I think, also between having radio and television as the whole enterprise and yet the current rules don't permit those economies of scale amongst the commercials insofar as the - I was referring particularly to the radio-television linkages. Seeing that you see it as such an advantage for the ABC, do you see the current rules that limit that as a substantial disadvantage for the commercial channels?

MR JOHNS: Professor, I think we need go back to the first premises and I think the first premises are that the Australian broadcasting industry, as I say, is unique. I know of no other, anywhere else in the world, where the commercial sector and the public sector have grown up side by side. It's a dual system, in a sense, and we've had that dual system by the ABC having responsibilities and opportunities that are governed by parliament, and when you look at it for achieving central diversity you see, okay, that's appropriate for the ABC as it is, not as a competitor against Channel 9 or Channel 7, for example, or a series of radio networks; it's the ABC national broadcasting, commercial broadcasting. So I see that what opportunities there are that are given to us, they have to be seen in that way: the ABC and the SBS for that matter, and the commercial sector as a whole.

PROF SNAPE: Yes, I was really trying to get - - -

MR JOHNS: And I think it is possible - I must say I think it is proper when you're looking for that diversity, as public policy has suggested, and when you're looking at the funding that's been put into it, that you maximise the use of that funding by allowing the ABC to operate to full effectiveness.

PROF SNAPE: Yes, but then it's presumably a significant disadvantage for the commercials not to be able to do that. I'm trying to get a feel for the economics of broadcasting where you have in fact got these economies of scale and scope within the ABC, which at least in part appear to be denied since you're advancing that they exist for the ABC, and then they seem - is it a significant disadvantage for the commercials?

PROF WITHERS: The answer, I think in short, is it's a cost disadvantage to the commercials that they see the same advantages or other related advantages of economies of scale and scope that the ABC itself has some access to. However, public interest objectives of legislation as a whole have seen dangers in that as well, that is, they have been concerned about the potentials for monopolisation which the ABC does not constitute by being a nonprofit and highly accountable organisation to parliament, so that the way in which a private sector would use those economies would be very different from the way a public sector broadcaster uses those economies of scale and scope. Of course a private sector broadcaster would not necessarily fulfil the same public interest objectives that can derive from those economies of scale and scope that a public sector broadcaster can, particularly in areas like news and current affairs. It clearly is a significant objective, as you see in former Prime Minister Keating's submission to you, that when those cross-media laws were introduced by his government, that he saw the danger as being reducing the diversity of expressions of public opinion. So his government certainly chose to see the cost of that to the public interest as greater than the cost advantages to the private broadcasters.

PROF SNAPE: Yes, thanks very much, Prof Withers. I understand the argument on the side of how they might or may or may not behave. I'm simply trying to get to the cost-save side of things rather than in fact the behavioural side of things. On the cost side of things you are saying, I think, that there is a significant disadvantage for the commercial channels - and I'm not saying these are the ABC because I'm not trying to talk about the competition versus the ABC, I'm just looking at their own costs - that there is a significant cost disadvantage, is there, or a cost penalty on not being able to get those economies of scale and scope quite independently of what they do with the position that they'd find themselves in if those restrictions were removed.

PROF WITHERS: Could I add to that then, which is that the unit costs of broadcasting for the ABC, when last examined, show that they were much lower than commercial producers. What you've got the problem of disentangling - there are two things: the economies of scale and scope and the absence of the ABC having to maintain large advertising transaction costs, departments that go out and seek and

market and bring in advertising revenue. The existing accounting systems of what is publicly available from the commercial broadcasters, which is very limited, don't allow that to be dissected as to what are the economies of scale and scope versus their costs in marketing, their requirement to bring in advertising revenue, but the simple fact is the unit costs of reaching a viewer or a listener are cheaper than the ABC. Indeed I recall when I personally did some studies to that effect, it was picked up by TV Week and they had a front page item saying, "Shock Report, ABC Efficient," and that is very clear that those unit costs are lower. The only way you could get at it differentially - and then you've got a real apples and pears problem - is of course international comparisons but there are so many other things that aren't controlled there it is hard to pin down.

PROF SNAPE: Could I put it another way? We've heard many comments about the lack of news and similar and news and commentary on commercial radio, that there are only one or two that in fact go into it in any serious way perhaps. Would you expect that there would be more news and commentary on commercial radio if the barriers to the linked ownerships of television stations and radio stations were removed? Would that give the opportunity for economies of scale and scope across the two forms so that news and commentary might then be reappearing on commercial radio?

MR JOHNS: The answer - this is a matter of opinion but I think if one is looking for evidence, professor, I think that having seen the concentration of ownership recently in radio - this is a matter of intent and behaviour, I suppose, and judgment of what the market is - there has been a corresponding streamlining and networking of news with the concentration of ownership, so it doesn't necessarily follow that if you've got the capability that you're going to use it.

MR SIMSON: Mr Johns, could I just get a feel from you as to how you see your marketplace, from a viewer audience perspective, different to that of the commercial free-to-air. To what extent do you believe you're catering to the same audience or a different audience?

MR JOHNS: If you're talking about the ABC audience - - -

MR SIMSON: I'm talking television, sorry.

MR JOHNS: Television, yes. Our viewers certainly differentiate what we're doing. They recognise what we're doing. Though we're a mainstream broadcaster they know full well that we do our news and current affairs differently. It's not just a matter of the frequency of it, I think, I think it is different. They recognise the effort we put into documentaries. They recognise the children's programming that we do. So I believe that while our charter is broad, our audience is broad, within that broad audience we face the audience as the commercials do but we provide them with different content which they recognise. But it is not a matter of excluding yourself from an area. It is a matter of addressing an area and addressing it differently perhaps.

MR SIMSON: But generally do a different bunch of people watch ABC television to the bunch of people who watch commercial television? To what extent do you see duplication, two different markets?

MR JOHNS: I think that they overlap. I mean, I think that they overlap. We have to go through audience surveys but I think you'll find that people watch the ABC for one reason, to meet one interest, and watch it for another - watch commercial for another reason.

MR SIMSON: That's pretty interesting because overwhelmingly the people who read quality newspapers, broadsheet newspapers, say the Sydney Morning Herald, The Age or The Australian are relatively low consumers of commercial television and relatively higher consumers of the ABC, both television and radio in this case.

MR JOHNS: We have gaps. I mean, we have got a predominance of audience in the older age group, which we try to rectify. You'll understand that we have a charter responsibility to reach all Australians and we do address all Australians where we can. It is sometimes said that the ABC should be indifferent to ratings. I understand the people who say that. I don't. I believe that we should get the maximum audience that's appropriate to the program. So that if we've got a particular program like SeaChange, we're looking for the maximum audience that's appropriate to that, just as we're looking for a maximum audience that's appropriate to a more innovative drama series perhaps than that.

MR SIMSON: In news and current affairs in your submission you're fairly critical of the commercial free-to-airs. Again, to what extent do you see you're serving a particular bunch of Australians with your news and current affairs? Again I'm referring to television specifically here, whereas another bunch of people tend to focus on the commercial free-to-air television services.

MR JOHNS: I'm not sure that the audiences are as discrete as you're suggesting. I think that if people are into news and current affairs they may well range across the networks. I wouldn't be surprised to see that a viewer of the 7.30 Report could well be a viewer of Sunday, for example. So I think there is some cross-fertilisation but the point of the matter is that we are there to provide the best news and current affairs that we can.

MR SIMSON: One of the reasons I'm coming at this is because in the context of the cross-media ownership issue and the issue of diversity and influence, for example, which you've touched on, you've expanded on in your paper, it's important for us to understand that while the ABC Act does not fall within our inquiry, but in the context of your comments today the extent to which you represent a significant chunk of diverse programming that does compete with the programming of the commercial free-to-airs - because if there were, for example, to be another free-to-air, commercial free-to-air, brought into the picture, it would be important for us to know the implications for that in terms of diversity, particularly in the news, information,

current affairs genre.

MR JOHNS: As I say, I think if you look at it, we address the audiences. We're as anxious to get audience as anyone. We're not programming in a way that deliberately excludes audience. We're programming and creating content in a way that we think is appropriate to the subjects and to the issues. So that when we're doing current affairs we're doing it at the level of quality of seriousness that we think is appropriate. So, in a sense, whatever others are doing, we will be doing what we're doing.

MR SIMSON: But I get the feeling from particularly your commentary on the news, information and current affairs that really it's almost, from your perspective, chalk and cheese in terms of quality, referring to page 13 - for example, page 14 of your submission.

MR JOHNS: They are judgments that have been made but, as I said, if in a discussion like this, when we're here to amplify our submission - for example, at point 2, as we did in point 2 in that, we're giving you a grounded picture, of the role of Sunday, Business Sunday. I'm not saying that current affairs isn't done well at times by other networks but I am saying that we've got a character and a style across the board for ours that the public actually understands and appreciates but it doesn't mean that it's elitist or sectional or not capable of broad appreciation.

MR SIMSON: In your professional opinion, has the quality of the news and information and current affairs on the commercial free-to-air been getting better or worse in the last few years?

MR JOHNS: It's a bit of this and a bit of that. Really, what I am saying is, very confidently, that the ABC's news and current affairs are constantly of a quality nature and that's what I'm really addressing.

PROF SNAPE: If there were to be a fourth channel, commercial channel, have you any view as to where it would position itself?

MR JOHNS: No, I don't. You see, professor, I really must return to this basic position, that we see ourselves - we see the ABC - addressing all Australians and providing something of interest at some point or another. We hope to provide something of interest at one point or another, whether it be on radio or television or now online for all sections of the community and all members of the community at one stage or one point, which is one of the - and I think we're successful at that. I think you'll find figures, if you look at - in fact 90 per cent of Australians at one time or another go to the ABC for one purpose or another. So we're looking at what our obligations are to the community as a whole and we're looking at how we can meet that.

Then I'm arguing that if you look at the ABC, if you look at broadcasting in this country, you look at the ABC and SBS, that's a sector - and you look at the commercial, that's a sector. I'm not asking to say, "Well, this is the ABC vis-a-vis

Channel 9, Channel 7, whatever."

MR SIMSON: So a fourth free-to-air wouldn't faze you?

MR JOHNS: It wouldn't faze me, no.

PROF SNAPE: On the conversion, if I may return to the conversion to digital again. You're saying, for example, that from a broadcaster's cost perspective a simulcast should be as short as possible, every encouragement needs to be given to the audience to switch to this new technology, etcetera, we also note that in the US conversion the US model doesn't mandate high definition television in the start-up phase. Do you have a view as to whether it would be better or not for the Australian conversion to be mandating the high definition right from the start?

MR KNOWLES: Professor, I think one of the issues confronting the process - in fact I'll speak from the point of view of chair of the expert committee which actually gave some advice to the ABA on the topic, one of the concerns we had from the outset was that in moving to a new television system, that in fact the future directions of that system not be too impeded by historical solutions that might arrive in the marketplace with a short-term view. In particular, one of the objectives we sought was to make sure that every receiver that came into the Australian market would be at least be capable of showing a picture when a high definition signal hit it. That is not the case in the UK, for example, with the generation of boxes. It is the case though in the US, that the US standards mandate that all receivers are capable of showing a picture when a HD signal hits it.

PROF SNAPE: But not necessarily a high definition - not to receive to it in high definition?

MR KNOWLES: The Australian situation is the same, the receiver standard does not mandate that the receiver will have a high definition display. Indeed, if you are looking at a receiver that you might wish to locate in your kitchen which might be the equivalent of the current 34-centimetre receiver, there would be no point in having a high definition receiver because it wouldn't make any difference. High definition really is directed at television screen sizes around about a metre plus. So you will in fact purchase the sort of receiver and it will have the sort of display that you need for the purpose.

PROF SNAPE: Which at the moment costs how much?

MR KNOWLES: In the US a metre-plus screen is costing in the vicinity of \$5000 which, in comparative terms to colour, is probably about the same. If you compare a metre-plus screen today in analog television, the current prices are around about \$4000 to \$5000, some going up to \$10,000.

PROF SNAPE: US dollars?

MR KNOWLES: No, Australian dollars. If I go down to the local store and look at a 120 or 106 centimetre receiver, it will cost me somewhere around about \$4999. The real costs in the television receiver is the display. The electronics in fact will fall very rapidly. What we are seeing, though, is we're seeing a very rapid fall in the price performance of displays. For example, large, flat screen, plasma displays which entered the market around about 18 months ago at around about \$20,000 for the standard definition display are now being marketed for around about \$9000. That is sort of in 18 months we've almost halved - more than halved the price.

PROF SNAPE: That's a standard display though.

MR KNOWLES: That's a standard display. The current version in high definition is currently about \$30,000 but there's been less than 500 manufactured in the world.

PROF SNAPE: Is that US or Australia?

MR KNOWLES: US.

PROF SNAPE: So \$US30,000?

MR KNOWLES: Sorry, Australian on 30,000 on the current list price here. We will see that fall very rapidly with mass production. The current advice I have from manufacturers is that whereas the old conventional picture tube had a physical constraint that limited the fall of which you could make the price, the newer technologies in fact are not so constrained within terms of improvements that you might make to the manufacturing technologies. In fact some people have quoted prices as low as \$1500, \$2000 by 2005 for a 40-inch screen. So we're suddenly seeing the situation where there's been a major impediment in screen technology and taking high definition forward up until now. We're now starting to see that moving away.

I think you can see the examples of that, for example, in the LCD or the projector displays we use for Powerpoint presentations and the like with our computers. The price of those has halved in almost 12 or 18 months. Again the quality of them has gone up dramatically. Whereas before they were washed-out colours, now they can produce very high quality presentation and that same technology is equally valid for high definition display. So lots of varieties coming up into the scheme of things. The consumer will make a choice about what level of performance they want in their home.

PROF SNAPE: Why do we want to mandate high definition from the beginning?

MR KNOWLES: As I understand it, the government, first of all, wanted to make sure that the requirement of having receivers all capable of HD broadcasting was in fact met. The government has, in the past, been quite reluctant to define standards for consumer equipment and in fact has relied on the Standards Association to do that. That makes it difficult to in fact mandate any particular requirement because you don't

have to comply with the Australian Standard on this arrangement. Under the present arrangements the Australian Standard does in fact embody high definition or the standard definition but, as I understand it, the government is not planning to mandate the standard. It will in fact be there as an industry consensus. We've yet to see what the government expects of us in terms of high definition transmission because the reviews have not yet been completed. I would expect that it will probably start off from a limited amount going upwards.

In the US experience, while some companies started off thinking about standard definition, multi-program and so forth, as far as I'm aware all of them in fact have reverted back into a high definition mode for the time being, for a couple of reasons, one being that the market is too fragmented in terms of too much multichannel in their highly competitive commercial market for the number of receivers that are actually present in the marketplace. Secondly, they have taken the view that the high definition model does in fact offer consumers something different to attract them across, rather than trying to compete in what is already a very strong multichannel market in the US with cable.

PROF SNAPE: There would be very little available that had been actually recorded in high definition in the first instance, wouldn't there?

MR KNOWLES: In the US market - and I'll take that as an example - something like 60 per cent of prime time television is in fact shot on 35-millimetre film and then converted to television. All of this can be in fact immediately converted to very high quality, high definition content. In fact I'm aware that a couple of the major film houses are already digitising all of their film material and basically hold it in digital form for conversion directly into high definition or standard definition print for release, rather than any other process.

The ABC for example - a number of our high end series we in fact do still shoot on film, for the very reason that in fact it is a very flexible medium for transferring to all of the other standards around the world without loss of quality. High definition, because there is now eight global standards for program exchange - which is the 1080 lines, that's 1920 pixels per line - it will in fact make it possible to have very high quality transfers between markets, which up until now has not been possible. If we were going between the American market and the Australian with the European market, for example, because it's a different number of lines, we've actually had a degradation of the content. Most of the buyers have always insisted on coming back from film rather than coming from television transfer, even though that has improved over the years.

So we're going to see an exchange of material suddenly changing. In fact I would expect from the ABC's point of view - is that it will probably be one of the earliest points of going into HD production, would be in fact to substitute for film, because you gain the benefits of electronic production and also some lower costs, because film is quite an expensive medium to deal with.

PROF SNAPE: Yes.

MR SIMSON: But as you point out on pages 29 and 30 of your submission, it's problematic the extent to which people are going to take up HDTV. I mean, it remains to be seen if this is sufficient to encourage rapid take-up, that is the superior image and sound. We had a submission from a participant in Sydney who described it as "pretty pictures". Another one made the point that unless you were sitting very close to your television - if you were sitting for example in a lounge room chair, as most people do, some way back, that the definition in terms of picture quality is not - the difference is not that great. So my question to Mr Johns is whether the real benefit from your perspective, from the ABC's perspective, is multichannel and datacasting. This is the big opportunity you see from this technology?

MR JOHNS: Well, let me put it this way. Positively, my positive attraction is to multichannel and datacasting, because I understand the present. I hope I've got a view of the future but I think I understand - like most of us, you understand, I'm more familiar with the present. HD - I accept that there are varying responses to it and estimates of its appeal but the conservative in me says, "Well, I want to be there, I must be there." Just as it would be horrific had the ABC stayed in black and white when everyone else moved to colour. Look at our resources now. What I can see that we can do, it is certainly true the multi-channelling and datacasting offer very, very promising horizons. My colleague here will be more enthusiastic with that because he's more knowledgeable and more confident about HDTV.

MR KNOWLES: If I could just address two of the points you made. One of them is the viewing distance. The conventional receiver is designed to be viewed at eight times the picture height. HDTV has been designed from the outset to be viewed at approximately twice the picture height, which is getting closer to the cinema experience. We all saw, when television first came in, the decline of the cinema. We've seen it come back again as people have suddenly gone back to the cinema experience as being important. The other element I'd like to - - -

PROF SNAPE: I'm sorry, could I just interrupt - twice the picture height?

MR KNOWLES: Twice the picture height.

PROF SNAPE: You mean if it's - - -

MR KNOWLES: As the optimal viewing distance.

PROF SNAPE: If it's 20 centimetres high picture you view it from 40 centimetres?

MR KNOWLES: Optimally. You can watch it a lot further back but in fact it was designed so that in fact recognising that the objective was to achieve roughly the quality of 35-millimetre film and therefore larger screens than one metre plus was in fact the international objective of the minimum HDTV screen size. We are looking at situations where you will see it closer because of the simple fact that you're going to

be closer to a larger screen - or maybe the same distance but the screen will be larger. I think also taking up Mr Johns' point, is that we need to try and position ourselves a few years old, not backwards. We've seen a tremendous change, for example, in the computer industry. Most of us are old enough to recognise that computer games, when they first started, were flat tennis bats and square tennis balls that moved slowly around the screen.

None of the children today would in fact tolerate that as being a reasonable computer game. The graphics in computers have been dramatically fuelled by the expectations of the children. Even the pay television industry takes note of this in terms of the fact that it frequently uses much higher data rates to transmit cartoons than it does for movies because the kids won't watch them if in fact they have deteriorating images. So I think we have to suddenly say, "What are going to be the expectations of the buyers of tomorrow in terms of where this technology goes?" I think that we will see an increasing expectation - in the same way as none of us would go out and buy a motor car without a heater - it becomes the norm and we do change our norms as we go down the track.

So I think HDTV is biased at the moment by the price factor because people haven't thought about that, as such, but bring the price factor down, it will become the norm, the same as everything else. We will still get our benefits of multichannel when it comes for those purposes as well. The challenge for broadcasters under the regulation which has been established is that they are not permitted to show any different content on HD than they are on their analog service. This makes it extremely difficult because the only argument you can run then is in fact quality. In the ABC sense, from the point of view of being able to offer some multiprogram, we can offer some diversity. In other markets there has been a tendency to say, "Yes, you can have periods where you can have alternative programming." The act does make some provision for that, subject to ABA approval.

PROF SNAPE: I come back, I guess, to the problem of 2007. It seems to me that there is going to be a - with the scenarios which you've been painting and which others have been painting to us - very strong likelihood of a major problem in 2007. That is that as it is currently scheduled, analogue should cease transmission at least in the capital cities - I won't go into all the details elsewhere - in the capital cities at that time. It seems that there is a very strong likelihood that large numbers of the population will not have sets that can take digital television and that is likely to bring severe problems for the government for those people - understandable problems because it's likely to be low socioeconomic-economic groups and the elderly and what have you.

Unlike the change from black and white to colour, the sets are not forward and backward compatible. So you are going to be in a problem, that you won't be able to receive the digital signal on an analog set unless you do something to it. It seems that no-one seems to be addressing that problem, that in fact you've got the analog chewing up enormous amounts of spectrum, much more in fact, as I understand it, that will be chewed up by digital, for a variety of reasons, and that that is going to

shut out competition. That spectrum is not going to be available for others, whether it be for television for for other purposes. It seems to me at that time one is going to have to address the question of extending the conversion process, and that is continuing to shut up all that analog spectrum and shut out competition or - and I suspect many people, and we've been hearing submissions in the industry, expect that to be pushed out in the future.

They expect to be transmitting in both for 15 years. We've heard it from some commercial channels. So they expect, in a sense, to be tying up that analog spectrum right into that period. The option is in fact to do something for the sets, all those analogue sets that are sitting around there in people's homes so that they can receive the digital signal and you can switch off the other. Am I wrong to be seeing that this is going to be a major problem in 2007? The assumption in the industry is that the solution is that we'll tie up the analog spectrum for another perhaps 10 years after it?

MR KNOWLES: The legislation actually prescribes eight years from the commencement of digital in a market, which means that it could go up to 2012 for regional centres.

PROF SNAPE: Yes, I concentrating on the cities.

MR KNOWLES: Coming back to the sets issue, the ABC has some experience with this turnover issue, having just converted our analogue satellite services to digital. To do that the government subsidised each of those boxes to the tune of \$650 each. The subscribers paid about \$200 to \$300 in addition to pay for those boxes. Those boxes have similar complexity but less complexity than the digital boxes you need to convert, the existing set-top boxes. I think the reason why nobody has suggested sort of massive set-top box solutions is that the costs actually become quite the significant factor, particularly in terms of today's prices.

I said at the outset that those prices could fall but at the same time, yes, it does provide a vehicle so you can continue to watch pictures, that's fine, and is true. The average life of a receiver in the marketplace is about 15 years, hence the number that people come to in terms of 15 years.

PROF SNAPE: The average, incidentally, is not relevant in the scenario.

MR KNOWLES: No, but the nominal life is about 15 years of a receiver as well from the service industry figures. People purchase receivers a bit more frequently than that but they shift the receiver into the back room. The life of those has tended to be sort of around 15 years now in terms of the turnover life. They see very few that are much older than that. Yes, it is a problem. I don't think anyone has the absolute answer to it. The only examples I can think of where set-top boxes were virtually given away was the start-up of BSKYB where around 100,000 boxes were given away but that was as much about trying to create an audience to reduce the programming costs which in fact were fixed anyway, as anything else, and to try to establish the marketplace. Their sum suggested it was cheaper to give away those

boxes to seed the market than it was to actually continue to have a very slow take-up.

MR SIMSON: That was standard definition.

MR KNOWLES: That was standard definition.

PROF SNAPE: But OzEmail, in their submission or in their discussion of their submission, were suggesting that there may be a couple of enterprises around that are prepared to do that in Australia.

MR KNOWLES: I noted their comments, yes.

MR SIMSON: Mr Johns, on page 20 of your submission you talk about BSA allowing for subscription broadcasting services and subscription or open datacasting services to be specified by the minister as part of the ABC national broadcasting service, can you foresee where you may actually be charging for some of your multichannelling and/or datacasting services on a pay for basis?

MR JOHNS: My view is that whatever service that we provide must be essentially universally available. That's our challenge at the moment. Furthermore, I'm looking to see us perhaps sell content across but - as we do sell television programs but I believe our challenge and our prospect is to provide our services universally across all the delivery systems. I'm not looking to be charging for those services at this - I'm not looking for that but I would be - I think the ABC would be interested in looking at providing content for others but provided that - - -

MR SIMSON: Who could then charge for it.

MR JOHNS: Yes, provided - just as we do co-productions, just as we do a whole range of things.

PROF SNAPE: How do you class the datacasting?

MR JOHNS: Yes - - -

PROF SNAPE: You wouldn't see datacasting as a direct source of revenue for you?

MR JOHNS: No, we're looking at datacasting, at this stage, as a form of delivery, a non-final matter.

MR SIMSON: But does your potential content line up for datacasting include services such as financial services and non-traditional ABC programming services.

MR JOHNS: My answer on this has got to be qualified because datacasting is developing at such a rate and the quality of datacasting is developing at such a rate, and we're counting on that, as a matter of fact, continuing to develop - and

Mr Knowles may care to contribute to this - but we're counting on that rate of development and we're looking at it therefore as a means of program delivery that's more in line with our existing content, adapted, than it is for looking for specialist traditional, the way that datacasting has been looked at to this point.

MR SIMSON: Just before Mr Knowles comes in on this, just reading your submission, you're obviously - just listening to you here - placing a significant amount of store in what you'll be able to do with multichannelling and datacasting, given your tremendous content, that it will be able to be cut and sliced and repackaged and developed and so on over these other forms, and you have a jump of six or seven years over the free-to-air in terms of their capacity to multichannel; they will be able to do some datacasting, however that's defined. That should deliver the ABC in the multichannelling area a significant competitive advantage, should it not? We're talking about six or seven years in this very fast age.

MR JOHNS: I hope so, yes.

MR SIMSON: So from that perspective, is there any reason from where you sit why the free-to-air should be restricted in multichannelling?

MR JOHNS: Look, I've answered this. I'm not interested in the restrictions on the commercials. What I'm interested in is not having restrictions placed upon the ABC because I believe, according to our charter, we've got a social purpose and we will be able to utilise those facilities in the public interest.

PROF SNAPE: As you pointed out earlier on and as we know very well, we are obliged not only to be looking at the economic but also the social and cultural, and we've been very happy with much of what you have given us on that matter. I wonder in trying to help us in our thinking there and in addressing those parts of the terms of reference which we're trying to do very seriously, whether Prof Withers would be able to elaborate, since it's in his part of the submission, to help our thinking on what merit goods are.

PROF WITHERS: Yes, it is meant to be where the government seeks to provide various goods and services that the people themselves would not necessarily choose for themselves. An example is, for instance, children's broadcasting. Kids might not necessarily want to watch good educational programming but we, on behalf of those children, impose our tastes upon theirs as government, so children's programming is a classic case of merit-good programming. We adults say that kids should have access to or be able to watch certain types of programs that they might not choose for themselves. Similarly, censorship of pornography is merit-good programming. Some adults wish to watch pornographic and violent material. We as a society say more generally we don't respect those particular preferences of those individuals, we make "a merit judgment" - which is a technical term developed in economics with that particular word attached - to say that we as a society declare those preferences as ones we won't respect and we will structure our regulatory or other systems to not cater to those in the marketplace.

PROF SNAPE: I think I get pretty much to that by the concept of externalities.

PROF WITHERS: Not necessarily.

PROF SNAPE: Can you help me with the extra dimension that goes beyond externalities?

PROF WITHERS: Yes, take the following: it could be with pornography that an externality would be where pornographic and violent material induces those material to go out and commit crimes, offences against other people; that is an externality, a spillover from the person receiving the material to what they do to others. If all it does is give them private gratification and it doesn't lead to any impact upon any other person, we as a society may still say, "We deem that morally unacceptable. We don't want you to have it, even though you're not hurting anyone else." We often do that in society. But it's a very fine line; many of the things that some people would classify as merit goods really have a strong externality component. Children's educational programming would be one. It's not only saying that it's not good in some intrinsic sense for children to watch certain types of programs or put in a positive sense, it's not just good for children to look at those programs intrinsically - it's elevating or appropriate - it's also a belief that perhaps it makes them better citizens, it positions them better as functioning people in our society in future life. When they do that, then it's an externality. That is a benefit to others as well. Hence, it is a fine line as to which judgment is being made.

PROF SNAPE: I happen to like opera. Is that a merit good?

PROF WITHERS: I like the bagpipes a lot better myself but I haven't been able to convince the government that my merit-good judgment is better than yours. You've won that one. You've seen the Yes Minister program?

PROF SNAPE: Indeed I have. So ultimately the government decides that. I mean, the distinction I think is that an externality, as you just described it, you can in fact attempt to see the effects upon other people; measuring it is another problem, but at least you may be able to identify it. You're saying that merit good is really where there is nothing that is beneficial to society as a whole? It's not beneficial to society as a whole that people watch opera? You're saying if opera is a merit-good then the benefit of opera is entirely with me, and yet it should be supported?

PROF WITHERS: If one was able to establish a spillover benefit from support of opera to anyone else other than the viewers, or the listeners, the attenders, and the benefit to them was not something that benefited anybody else, and yet government, on behalf of the people still chose to subsidise opera, that then is one example of a pure merit good at that point.

PROF SNAPE: But you did say there was a spillover, did you not?

PROF WITHERS: There can be, yes. I might happen to believe - - -

PROF SNAPE: The spillover is a regular externality though.

PROF WITHERS: Once there is a spillover. I said, in the absence of any spillover, if government still decides to fund it, that becomes the merit good.

PROF SNAPE: That means that anything the government decides to fund that would otherwise not be done is a merit good?

PROF WITHERS: Yes.

PROF SNAPE: So it's circular?

PROF WITHERS: Yes. It's often known as an empty box in economics, for that very reason.

PROF SNAPE: What we're really saying is back to the terms of reference, or back to the Broadcasting Act, the government has decided, full stop.

PROF WITHERS: Yes, if it's going to use that merit-good argument.

PROF SNAPE: Yes.

MR SIMSON: Mr Knowles, in the submission, page 27 of the substantive submission, you make the point that "Most broadcasters, and the ABC in particular, are overdue to replace ageing studio and production hardware." This is in the context of - is there some way of, not necessarily in dollars and cents, but at least in a general way, quantifying this for us? Are you suggesting that there's a whole bunch of equipment out there that has to be replaced anyway, irrespective of whether they go to digital? This is important, because one of the reasons for the policy being announced the way the government has, in particular the regulatory arrangement around the free-to-air over the period for the next, sort of, seven, eight, 10 years, is because of the cost of converting to digital.

MR KNOWLES: There are two major costs of converting to digital. One is the cost of the means of production and the other one of course is the cost of delivery to the public. By far probably the dominant cost is the cost of delivery to the public.

MR SIMSON: That's the recurring cost annually?

MR KNOWLES: The cost of the transmitters or the recurring cost annually of doing that, so probably globally there's half a billion dollars or more just for the transmission costs. In terms of capital costs, then there's ongoing outlays, particularly during that simulcast period. Now, of course, in the television sense, many of those transmitters are in fact much younger than that, because quite a lot of them, during

the television equalisation scenario which finished in around about 1991-92, new transmitters were provided almost across the board. Those transmitters nominally, would have a life of 20 years, and so they've got a little way to go yet and probably could run out to 30 years in some cases.

In the case of studio equipment, because the broadcasters have seen that digital technology was coming, and indeed we have been purchasing digital technologies for some years now because that's the way it comes, there are elements of our infrastructure, and certainly in the case of the ABC, such as our main studio production equipment which is still very much in the analogue domain, by having held off on replacing some of that, at least we can take advantage of what's now coming. In the last 12 months I've seen the list prices of HDTV equipment fall from what's about four times the price of analog to something like a 10 or 15 per cent premium. So we're suddenly seeing a rapid fall as the technology is starting to mature and become real.

MR SIMSON: So the cost of that equipment renewal at the production end, not the transmission end, is actually falling?

MR KNOWLES: It is falling. It'll probably stabilise in about the next 18 months, with those mass markets like the US coming online.

MR SIMSON: But of course these decisions were taken on policy in some of these areas 12 months ago when obviously it would have been much more expensive.

MR KNOWLES: I think most of the arguments that were advanced at the time did recognise the fact that the equipment prices would fall, because it was being based on the fact that equipment wasn't going to be available until a certain point in time, it needed the US markets to come up. Even so, it still constitutes a fairly large sum of money from the ABC's point of view, setting aside the transmission. We will be spending overall something of the order of \$200 million, against the infrastructure needed to finally digitise the ABC's internal means of production, and to deliver that program out to the transmitters. The transmitter issue is a separate one which will be addressed separately.

MR SIMSON: Prof Withers, could I take you to 4.5 of your submission where you talk about the new broadcasting economics and the implications of this for public broadcasting which you explain. Could you talk with us about these new broadcasting economics in the wider media marketplace, taking in newspapers as well, as to the significance of the newspaper in this plot that you've sketched here for us.

PROF WITHERS: Well, the particular element I guess you're referring to is the capacity for the traditional physical form of the newspaper via, you know, hard copy print and paper to itself become involved in the new electronic technology. It will be delivered online, and so on, as it's increasingly doing. That's a good example of a convergence issue in the broadcasting economics, whereas before they were quite separate markets; the elasticity's of substitution in that jargon of economics between

newspapers and free-to-air television, for instance, for their true customers who are the advertisers, not the viewers and readers by and large, it's the customers of the media in this sense are most correctly seen as advertisers.

Advertisers saw a very significant difference between those markets, and their change in relative prices didn't shift advertisers very substantially from one market to another. As they converge in form of technological delivery, what that does is limit that gap in the chain of substitutes such that there may now be, and this is predicting as opposed to having established, a much easier substitution between those products than was the case before. Now that changes some of the economics of the industry, because it really means for broadcasting there is now much more competition from newspapers potentially, than there was before, and so a concern before about monopolisation in commercial broadcasting is muted to the extent that the availability of convergent technology from newspapers means newspapers can compete more effectively for advertising revenue, or if you switch into direct-to-user payment, as also the new technology permits, more direct competition for the reader or viewer or whatever we're going to call it, in the convergent technology.

So the economics of the industry is opened up to more competition by that, but equally of course, the economies of scale and scope don't tell us whether that competition will be well realised, because it could well be that access to the networks of delivery is a problem, or that the firm is producing content and operating that delivery themselves, come to control very substantially the convergent technology.

MR SIMSON: Yes, I was going to ask you about - - -

PROF WITHERS: So opportunities and problems are both there.

MR SIMSON: I was going to ask you about the latter there in terms of potential concentration of ownership in the context of the potential for substantial market failure that you refer to in 3.3. Could you just talk a little bit more about that for us.

PROF WITHERS: Well, with those - it's the issue I think we were discussing earlier - with those economies of scale and scope, we keep using those words, the opportunity is very much there for some multimedia players to become dominant across the range and spectrum of the newly convergent technologies. The deregulation of the - under the US recent deregulation of its communications industry in the last decade has led to what there is frequently referred to as "a media merger frenzy" with all the key players of everyone from Twentieth Century Fox through to Japanese large electronic utilities coming into the US market seeking to purchase major dominance positions in the US industry of a kind that is of great concern to the US competition authorities.

MR SIMSON: So ownership concentration can be a counter to the benefits that you'd otherwise get from diversity of convergence?

PROF WITHERS: Yes, there's both the promise of competition there and the

threat, according to how it works out, of the benefits of competition not fully realised. The argument in Australia is in terms of whether that should be as it were countered via industry-specific regulation of a kind that is getting increasingly difficult as the definitions and the boundaries of the industry change versus generic competition regulation.

MR SIMSON: And of course, some of the proponents of change, for example of the cross-media ownership rule, say that without the economies of scale and scope that would come from that change, that they're boxed into their industry-specific category.

PROF WITHERS: Sorry, they say that - - -?

MR SIMSON: Well, some of the proponents of change in the cross-media ownership rule say that they are not going to achieve the economies of scale and scope unless they are more free and more open to play on the convergent territory, but as you've argued, there is the issue of ownership concentration.

PROF WITHERS: Yes, and that's the trade-off the government or the productivity commission has to judge, whether to propose continuing industry-specific rules that seek to minimise the monopolisation possibilities while allowing much more open competition, and if you decide not to do that, whether then the general competition rules would be sufficient to deal with those monopolisation potentials as they arise.

MR SIMSON: Putting that last point to one side for a moment, do you believe that what's happening with the convergent technology nonetheless makes it practically very difficult to run competition policy around industry-specific areas?

PROF WITHERS: I think it does, yes, increasingly, and also the extent to which that monopolisation concern is evident, the headlines in the US financial press indicate concern. Perhaps the best study I've seen of this that looks at it in a serious analytic way is by a professor of communications at the Columbia University, L.E. Noam, who when he looks at the overall concentration ratios across each of the subcomponents of the now much more broadly defined communications industry and the industry as a whole, he finds in fact that while all the press are concerned about this media merger stuff at the top, in fact the concentration ratios, at least in the last 10 years, have declined in the United States rather than increased, which on the US evidence - which of course doesn't necessarily carry across to Australia - is what would happen with our players and our structure. On their evidence, some of the concerns of that monopolisation may be overstated.

MR SIMSON: So, Mr Johns, would a relaxation of the cross-media ownership rules be of concern to the ABC or is the ABC not fazed by a prospective change such as that.

MR JOHNS: We've mentioned in our submission for example that our interest is indirect in one sense but we've mentioned in our submission that for example that if

the result of that was increased concentration, buying and selling programs could be that much more difficult for us. But we're not here to set a marker on that issue.

PROF SNAPE: I understand the position and the situation of the ABC in regard to that, but if I could just explore it just for a moment longer and taking the scenario that Professor Withers was indicating before. One possibility, as he said, was for the existing competition laws themselves to be the means by which the matter of diversity and plurality was looked after, that at least in our terms of reference, it would seem that that's what matters for us. There is special emphasis on diversity and plurality given in our terms of reference. We are obliged to be considering various means to the government's ends and different forms of achieving those ends. I suppose the question that arises is if the existing cross-media rules are becoming more difficult to implement or, as some have suggested, meaningless, in some people's words, because of the technological convergence, then is there another way of achieving the government's objectives of diversity and plurality that lies somewhere between the existing rules and the existing criteria of the ACCC with respect to - - -

MR JOHNS: Well, I'll answer in the most obvious way perhaps. First of all, the end is diversity and Australian content in my view. Then the surest way, as we've argued, the most transparent way to ensure diversity and quality of the Australian content is a properly and adequately funded ABC. In terms of the cross-media rules in particular, we would be saying that you would be cautious about changing those but at the end of the day when you're in this environment, those issues of cross-media ownership may have to be equated with access distribution in this new broadcasting era and they may be the central questions as a means to the end. But the end I believe remains constant and that is diversity and Australian quality, Australian content for Australian identity. So I'm suggesting that if you were to isolate the issue, you'd be very cautious about any change to cross-media ownership rules, but if you are looking at the issue as I understand you are, then you will be looking at, if you take the end to be as I say diversity, quality and Australian content, then you may be needing to recap. You may be needing to focus on matters of access, matters of distribution in this new technological environment.

PROF SNAPE: Yes, we have those objectives within our terms of reference and we're starting from those and saying how are those objectives best pursued, achieved in this age of technological convergence.

MR JOHNS: See, I'd suggest, professor, that at the end, as I've said, that Australian content rules are the first and last line of defence, because whatever happens, whatever the regulatory environment, one of the outcomes that you want, that is sought as I say, apart from diversity, is Australian content.

PROF SNAPE: Yes.

MR JOHNS: And that has been a singularly effective in my view regulatory role. If we'd left the market forces to themselves, we would not have known the appetite there is in this community for Australian content. It's hard to believe the scepticism

there was about whether there was an audience for Australian programming. I know from my own experience in publishing that I used the fact of the audience levels for Australian content on television as an insurance to the Penguin proprietors, that company, that we should persist and launch ahead with Australian books because there was indeed a market there for it. It's hard to believe that only in the 70s and 80s there was this degree of scepticism about an appetite for Australian content.

PROF SNAPE: I see that, but we have particular content rules which apply to the existing forms of media and so one of the charges before going onto the other part is as one is bringing in new forms of media with the technological change etcetera, what does one do with those content rules. Those content rules are in fact specified for the media of the past, not the media of the future.

MR JOHNS: Not entirely, professor, if I may say so. Pay TV, and you're as well aware as I am because I think evidence was given before you, but the Australian Broadcasting Authority struck a level of 10 per cent for Australian drama content. Despite the hundreds of millions that has been invested in pay TV, I notice that that was one of the first things that had been singled out as an economic burden and perhaps needed to be looked at. So I agree with you that we will have to be looking at content and how content can be regulated or not, but we have made a start at least.

PROF SNAPE: That's what I was trying get your thoughts on how that and the diversity-plurality objectives may be pursued in this technological convergent age.

PROF WITHERS: It is important to recognise that they can be pursued via a publicly funded public broadcaster which is - - -

PROF SNAPE: I see that part of it. I'm trying to get to the rest of it.

PROF WITHERS: Well, is part of it the following: you asked before for instance about whether a fourth channel would add to diversity. You were talking about diversity and local content. The econometric studies in the United States and to some extent for Australia - the one or two that exist - show that three, four, five channels add a little bit of diversity for free-to-air broadcasting under the existing spectrum arrangements traditionally, but that a public broadcaster adds very substantially to diversity by standard diversity index measures, and that indeed in the United States, up to 12 commercial free-to-air channels only make small marginal increments each time to diversity compared to the impact of the public broadcaster. The intellectual capital from a public broadcaster who can offer a different motivation for what they do would seem to apply as much to the new technologies as to the old. If you are extending the spectrum scope into new technologies as much as extra space, it's simply in each case that you're coming at it from the fact that you are in not for profit, not a market-charging broadcaster and you will continue to have a different approach to that. Intellectual capital will also enable you to access the new technology effectively and provide local content without regulatory support or control just because you are, in a very internationally consistent way, providing local content not by quotas, not by regulation, but by a publicly funded public broadcaster and that

applies in any environment.

PROF SNAPE: But, Professor Withers, you are not arguing that if enough money is given to the ABC, then we don't have to worry about any other rules on diversity and plurality?

PROF WITHERS: For myself, I think that relying on the general competition regulation combined with a very strong and comprehensive and well-funded public broadcasting sector would be a very strong basis for dealing with a number of public interest concerns that arise without much industry-specific regulation, but there I'm speaking for myself, not for the ABC.

PROF SNAPE: I realise that I was pushing you into that position and I apologise. Since you weren't coming forward with your own hat on rather than the ABC's, I was taking the opportunity but I shan't push it any further. On the content and picking up children's content - that same argument perhaps could go to Australian content more generally - but let's just favour some of the children's content because it will bring out the point, I think. Currently, there are content requirements on all the commercial channels to carry children's content and they appear to find it quite a burden. They are not able, for other regulation's reasons, apart from any other reasons, to generate the amount of advertising revenue at those times which were to carry it, so they regard it as a burden. We are required, as I said before, to be considering alternative means to the ends which are specified, particularly non-regulatory ones. One possibility could be, that I would invite a reaction to, is a transferable quota. Let us suppose that each of the commercial channels were required to have children's content - for want of anything better, let's specify it at the current level - and it is specified in terms of an amount they have to take at different times.

Let's suppose that they were able to transfer that requirement to another channel or they would pay another channel to take that burden from them. That's the way the money would go if one - they say it's a burden upon them so they would be presumably prepared to get rid of it; that they would be able to pay another channel to take that children's requirement. So it would be a transferable quota. Now, particularly if the ABC were to be running a children's channel you could in fact be paid by the others to take their children's requirement. Just in the spirit of exploring, as we are required to, alternative means to ends, does that have any attraction for you?

MR JOHNS: Well, just in exploring it it's your responsibility and you're asking for a response and it's a "from the hip" response. I would say that the first thing is that when one thinks of hitherto - like, when I've thought about regulatory content, one has thought of them in the context of particular networks, particular places, so that the viewers can have access to that range of programming. So I suppose the first thing that you would have to ask about - and why are they based on that? Because it's based on the old argument that because of the scarcity of the spectrum, but that's why they are regulated heavily and because of the pervasive influences of them that that's why they're regulated in the way that newspapers aren't, for example, and the print

media aren't.

So I think that was the cornerstone, if you're starting to move away from that, you would have to be starting to look at those cornerstones and are they valid or not. Then within that you'd be saying to yourself, well, we grant those television licences because we want a range, as I say, of content program and notably Australian content in this is to be present. I mean, my first concern would be if that you walked away from it in the way that you are suggesting, that you might have it "ghettoised" and that's not necessarily a good thing. That would be my first concern. But I mean, you know, it's an interesting idea.

PROF SNAPE: A children's channel is no substitute for having a bit of children on each channel?

MR JOHNS: I wouldn't think so, I mean, it's an interesting idea.

PROF SNAPE: I think that Prof Withers nodded a bit too.

PROF WITHERS: I didn't think I did but it seems to me - it's an interesting idea but you can produce a subsidy equivalent to that transferable quota. You may as well just subsidise the ABC straight up by its equivalent amount and say, "Do a lot of good children's programming." You needn't go through the apparatus of a transferable quota, just abolish the quota and - - -

PROF SNAPE: What about a transferable quote amongst the commercials?

PROF WITHERS: Within the commercials themselves, my worry there is the ghetto one. If you really want to make the merit-good judgment or indeed, an externality judgment that it is good for kids to watch these things, then the transferability loses that benefit because the kids whose parents choose to watch one channel and not the children's channel, those children miss out. Your problem I suspect in this new technological environment is, all right, you might want to either retain that quota for the commercials or put up with a bit of ghettoisation and have it transferred within themselves. But with convergent technology there are so many other media here we're talking about, are you going to apply it - in fact, for this to work effectively, you've got to extend the quota to the new technology as well, and then make it convertible as opposed to just - - -

MR SIMSON: You can make part of the quota convertible or tradeable and that might tend to mitigate against ghettoism in a particular genre.

PROF WITHERS: But it's still playing around with the industry's specific regulation which, I think, is very flawed.

DR SCHULTZ: Another point of concern, if I may come in here as well, would be that if, as the national public broadcaster, the ABC found itself on the receiving end of the bits that nobody else wanted to do, you could very well be positioned as simply a

niche broadcaster. So you'd lose that access to the spectrum to do a comprehensive range of things. So you'd be locked down with the areas that nobody else wanted, commercially viable or fitted with their idea of their comprehensive range.

MR SIMSON: Nobody is suggesting, I don't think, that you'd be forced to buy the quota.

DR SCHULTZ: No, not at all.

MR SIMSON: In fact, I was going to ask Mr Johns, if the demand for Australian content has grown as strongly as you say it has, why a need for quotas anyway?

MR JOHNS: I know that's a rhetorical question. Look, the fact of the matter is that the economics - we don't have Australian content to a higher degree than we've got because it's too costly to make and we haven't achieved an export market. Now, that's been a continuing problem for the Australian cultural community, whether it be film, whether it be books, whether it be television, whatever. We've got a small population base and concomitant with that we don't have an export market. So, as I said and you know yourself, operators said, "Look, we're having a hard time making money. Australian drama is too onerous for us. Take it away from us." Not because there's not an audience for it but because of the cost factor meeting that audience.

Now, the real challenge - I mean, if we're looking at children's programming, for example, and why people aren't doing more children's programming, it's a cost factor again but I think that the way to tackle this issue, one of the best, is export markets because we do have to look at an export market. The difficulty about looking at export markets in my experience has been that we have tried to sell on a one-off basis. It's been very difficult. You sell one book overseas with sellers. You don't have relationships. The BBC would not have the market it has for its product in Australia if it were not done on a relationship basis, if it were done on a series of a one-off bases. The American film industry would not be as strong here in Australia if it had not secured distribution and it was a relationship - we didn't cherry-pick for films. Similarly with television.

In the creative community, in the cultural community, we have got this very unnatural situation where we're buyers and not sellers and the sellers to us think that that's a normal relationship where they would not cop that relationship in a normal trade environment. We as a community have copped that relationship and unnecessarily so, and what I've said before and I'd say to you, that when you're thinking about it imaginatively within your terms of reference, I mean, what we've got to point to is, we need an industry plan. We would not have a car industry if we had not had an industry plan. We have had periodic fitful attempts but not an overall strategic attempt to provide the basis for Australian content. We have done it via the Australia Council, we've done it by film commissions and we've done it this way and that way, but I think that what we haven't really, really looked at is the ability to bring this together in the form of an industry plan, and an essential element of that would be to achieve exports.

PROF SNAPE: Could I return to the educational question for a moment, and of course the ABC is very strong on educational and as a content provider I appreciate that, even if people do have to get up at 4 o'clock in the morning to see it but in the new emerging technology, would you see a role for the commercial channels in the educational area or a required role? What do you see as the emerging role in the education area for the ABC and, as I say, for the industry as a whole?

MR JOHNS: Well, I'm certainly happy to answer that part of the question. We are already seeing, envisaging, an enhanced role for the ABC in educationally-specific programming. We have entered into arrangements, program arrangements - these are initial steps - with Monash University and we are utilising in the development of content and we're utilising to do that, radio and Radio Australia, and we'll see that flowing into television and also we'll see that flowing into a multichannelling capacity, I hope, so that you won't be watching it at 4 o'clock in the morning because of our clogged one network. And we've established a unit, a very small unit, in Adelaide, South Australia to explore further educational content and I think this is something that's going to be very, very significant for the ABC and for the country in the future.

MR SIMSON: Within the digital spectrum that you have available, is there enough available there for you to do what you wish to on multichannelling?

MR KNOWLES: The allocation of digital spectrum basically is one channel to match off the analog channel. So essentially what that gives us, it gives us in technical terms around about 20 megabits per second which is the capacity needed to carry a fully-fledged HDTV picture or, if you like, around about three standard definition light screen pictures of broadcast quality. The ABC is building its content strategy around that sort of level of capability and it will vary through the day. Obviously when you're doing high definition you can't do multichannel.

MR SIMSON: But you've got enough to simulcast as well as do a fair suite of multichannelling.

MR KNOWLES: It's actually quite two distinct separate parts. The analog spectrum actually renames - - -

MR SIMSON: Sorry, okay.

MR KNOWLES: - - - and the other one is actually a new piece of spectrum.

MR SIMSON: Yes. Can I refer you to page 48 of your submission, please, where you talk about your relationship with the pay television industry or how the markets might intercept because, Mr Johns, what you're indicating there is that they're, as you see it, quite separate markets and in particular for the content that you will be producing for multichannelling is not going to be content that's in competition with pay TV. Is that correct?

PROF SNAPE: This is page 48 of attachment 7.

MR JOHNS: What I am arguing in general in multichannelling is that we're going to be doing things with our multichannelling, extending the life of our existing programming and to the extent that the commercials aren't doing what we're doing, then they of necessity, I would imagine, wouldn't be doing it in multichannelling. Are you with me?

MR KNOWLES: They're tools and in fact, at best, with three channels you have great difficulty competing with what might be a 50-channel suite and that's certainly been the case of the examples in the US. With just the few channels you've got, it concentrates on your programming there as well, and the ABC would be specifically programming to meet the needs of its audience which may or may not be a pay TV type product. By the same token we expect that in fact some of that content may be of interest to pay TV operators to carry in their cables in the same way as they currently carry the ABC's programs now, which is of benefit for those people who get inadequate reception of some sort or other.

DR SCHULTZ: Certainly in terms of developing programming strategies and content strategies for the multichannel environment, we very much look back to the reach of the charter. So the sort of two principle streams that we're looking at really revolve around an information stream which is not a CNN type information stream but a much more discursive approach to information programming which is able to pull on our regional and national resources and learning stream, which is quite broadly defined. So they're very particular areas that we see fitting very much within the charter responsibilities of the broadcaster but then drawing on our areas of strength.

MR JOHNS: You'll understand that there's a degree of uncertainty at the moment with what we can do with multichannelling.

MR SIMSON: What is the ABC's policy towards corrections? We've had a significant number of submissions from people complaining at their inability - referring, I think, in fairness more specifically to the commercial free-to-air - to get retractions and also get the support from the ABA in enforcing its codes in these areas. Could you explain to us what your policy is here in terms of corrections?

DR SCHULTZ: The ABC has a very extensive corrections policy which is dealt with at some length in its code of editorial practice, which is quite a lengthy document. They are dealt with internally by complaints going to program makers, executive producers and then resolved. There is an independent complaints review panel which can hear complaints of not being satisfactorily resolved in that other process and then it's also possible for complaints to find their way to the ABA. I think that it's fair to say that the ABC has an extremely rigorous and quite conscientious approach to corrections and certainly takes them very seriously. I mean, there's ongoing monitoring of complaints, responses and so on.

PROF SNAPE: Could I give the specifics that I gave in another audience and that is

let us suppose I was reported on the news as being involved in a brawl and named and I could establish very readily that it wasn't me, that it was Stuart. Would a correction appear on the news broadcast the following evening?

DR SCHULTZ: It should do. If it could be established that the wrong person had been named. I mean, I can't see that there would be a reason for not making such a correction. Certainly the policy is one to - I mean, people make mistakes in this business. It's the nature of the information-gathering process. Information is collected, sometimes errors creep in. The intention is always then to make it as accurate and reliable as possible and if that means making a correction when something is clearly wrong, well, that's done. It's done with some regularity on ABC programs, radio and television.

MR SIMSON: In that panel you refer to - with regards to the panel you referred to in response to the previous question, does the complainant have an opportunity to appear or submit to that panel?

DR SCHULTZ: Indeed they do. Prior to my joining the staff of the ABC, for some years I was a member of that panel and we regularly received lengthy submissions. There would be a detailed investigation. It's quite a long and detailed sort of process that goes on.

PROF SNAPE: We've been detaining you for considerable time and we thank you very much for your participation, for your very helpful as well as lengthy and also very thoughtful submission, we thank you for that. It will be a very useful input to our process. We thank you also for your tolerance and for answering our questions. We have Telstra next on the schedule. We're running a few minutes late but we've also got a note that DMG, who were to appear after Telstra, have got fogbound at Adelaide, which must be pretty unusual. I didn't know they were coming from Adelaide anyway but that's where the note says they're fogbound. The staff have arranged for them to appear rather later in the day and probably at the time that is allocated to Southern Star which was roughly 4 o'clock and which, as I said earlier, Southern Star aren't coming today. So there's going to be a little bit more time for Telstra than might have appeared on the schedule. We now adjourn for about 15 minutes and reassemble at 20 past. There's coffee available in the next room and we thank you very much.

PROF SNAPE: Welcome back after the break and we now welcome Telstra. We have two representatives of Telstra who are going to speak and we would ask each of you to identify yourselves for the transcript and then - I'm not quite sure who's going to lead off, but whoever is we would invite you to speak. I do apologise, we're a little bit late but the ABC took just a little bit longer than we budgeted for.

MS SHIFF: Thank you. I'm Deena Shiff, director regulatory, of the Telstra Corporation and I'm joined by Mr John McIntyre, Telstra's technology manager video platform IT integration.

PROF SNAPE: I'm sorry, we need both voices on the - - -

MR McINTYRE: Yes, sir. Yes, John McIntyre. I'm with our network technology group, video platform technologies IT integration. I'm a technology manager in that area.

PROF SNAPE: Thank you very much.

MS SHIFF: Before responding to questions I'd welcome the opportunity to make some short opening remarks. Many of the points raised in Telstra's submission insofar as they apply to barriers to competition between pay TV operators and free-to-air broadcasters, especially for example in relation to anti-siphoning rules and rules in respect of retransmission, have been covered in the Australia Subscription Television and Radio Association submission, the ASTRA submission. Telstra supports these views and doesn't propose to repeat them here. Instead, Telstra would like to take the opportunity today to describe its involvement in the emerging markets that combine broadcasting and telecommunications and to address some specific issues, regulatory issues arising out of its participation in those emerging markets.

In principle, convergence should offer opportunities for greater competition and diversity and hence less regulation. However, we would like to draw the commission's attention to two fairly specific issues: firstly, the unequal application of industry-specific competition rules in emerging convergent markets. Secondly, the reservation of spectrum for broadcasting purposes having the potential to crowd out other applications. Turning to Telstra's services, Telstra is no longer simply a telephone company but aspires to offer electronic information and content services across a range of platforms fixed and mobile. We do not have any pre-conceived ideas about the services that will succeed in this environment either at the customer access or the content layer.

At the access layer the new broadband networks of the future may be based on satellite copper lines which is either some type of DSL technology or ISDN hybrid fibre co-ax or some combination of these. Telstra has invested in or is investigating each to see how best it can serve residential consumers. Having made major investments in copper and HFC delivery platforms Telstra is largely incented to attract customers to those networks both at the wholesale and the retail layers. For example, Telstra provides wholesale Internet backbone services to ISPs by Big Pond Direct.

Big Pond Direct has recently launched an ATM option to provide faster access speeds and so on. At the content level Telstra is involved in firstly pay TV by our own interest in Foxtel, a range of Internet products, Big Pond Home, Big Pond Business and Big Pond Advance which offers permanent connections via satellite or cable modem. Big Pond Home is a dial-up product.

Telstra is offering entertainment via Webcasts. There's increasing demand for live broadcasts over the Net. Higher bandwidth access and new compression technologies are facilitating mass market take-up of these services in video format, although they're largely audio to date. Telstra is also presently trialing a dial-up, via a 56-kilobit modem, interactive television service which effectively offers Internet-style services viewed by means of TV but offered over the PS, public switch, telephone network. Digital conversion of TV is providing more broadcasters and those fortunate enough to acquire datacasting spectrum with similar opportunities to offer on-demand programs with a similar look and feel to these on-line services. It's also provided broadcasters with opportunities to offer fully interactive broadband services with limited incremental investment over their initial HDTV investment.

Turning to some of the specific regulatory issues, in an ideal world convergent services would be regulated the same, notwithstanding the identity of the service provider. However, in the 21st century Australia faces the unfortunate prospect of regulating broadcasters quite differently to other service providers. From a telco perspective all infrastructure, old or new, is subject to an access regime under Part XIC of the Trade Practices Act. Broadcasters are specifically exempt from these rules.

There are exemptions that are offered within the rules, just as under Part IIIA pre-existing protected contractual rights are exempt for constitutional reasons, and there are other exemptions that reflect capacity limitations, so too these exemptions apply under Part XIC. But the rules themselves do apply to all industry players except broadcasters, creating the most extensive access regime that exists than in any other sector of the Australian economy. Notwithstanding some of the other remarks that have been made during this inquiry, Telstra's last mile to the home is so regulated.

In addition, telcos with market power - principally Telstra - face industry specific conduct rules under Part XIB of the Trade Practices Act that would also govern its conduct in a downstream content market if the services are offered in connection with an upstream carriage service. Telecommunications markets are now fully open to entry and to investment in infrastructure. There are no longer any exclusive franchises.

By contrast, free-to-air broadcasting is based on limited franchises, some artificial protections and barriers to entry, for example by a spectrum. When free-to-air compete with other service providers outside traditional broadcasting these rules may create significant distortions. For example, a broadcaster using digital format for datacasting who has acquired a reserved spectrum is subject to only a token access regime, covering physical facilities such as towers, and has no

obligations to provide access by the set-top box.

Turning to spectrum planning - a fairly specific issue that Telstra has raised in its submission - Telstra doesn't believe that there are sound policy reasons for continuing to provide one segment of converging communications media with reserved spectrum rights when new spectrum becomes available. A broadcasting first policy not only has the potential to starve off new and emerging markets which rely on spectrum usage but is not the most efficient way to allocate spectrum between competing users. For example, digital sound broadcasting bands could also be used for pay TV. Another example - there's currently unmet demand for delivery of regional digital telecommunications services, that is basic phone and data services in the bush. Currently these services access the 1.4 to 1.5 gigahertz band but this segment has been earmarked for digital broadcasting.

Accordingly, Telstra has come to the view that Australia should have one spectrum manager, the ACA, and not two, the ACA and the ABA, in an effort to align the spectrum management processes for broadcasting with data radio communications in general and so that the public interest in achieving the most beneficial use of spectrum across the board is maximised. In conclusion I would just like to comment that clearly the commission has a difficult and challenging task ahead of it in grappling with these and many other issues of public importance. We thank you for this opportunity to participate in that process.

PROF SNAPE: Thank you very much, Ms Shiff, for that, and for the submission, which is very solidly argued. I notice that you are arguing that there should be sort of generic competition regulation and that it should be with the ACCC, and yet you seem to be very dissatisfied with the ACCC. Contrast perhaps what's at the bottom of page 21 - is where you say that it should be the ACCC - with what you've got on page 25, which is considerable dissatisfaction with the ACCC. Would you like to comment on that please?

MS SHIFF: I think people would be surprised if Telstra was constantly enamoured of the decisions that the ACCC made but Telstra has consistently wanted to be governed by economy-wide competition rules, although it accepts the fact that specific access regime has been constructed to deal with telecommunications infrastructure. The dissatisfaction that you refer to rests on the fact that, probably through no fault of the ACCC, the government - in I think 95-96 - decided to solely regulate terrestrial line links for pay TV purposes and required that those services be deemed declared by the ACCC in a transitional act in 1997.

There has been some question about the validity of the deeming statement that was consequence on that statutory requirement. The ACCC was I think forced to have an inquiry under Part XIC to look at the issue of whether to invoke Part XIC for pay TV transmission services. I think in reality it was bound, in order to reinstate the earlier deeming provision, to declare line links. The unfortunate aspect of it is that since then there are much more diverse channels for distribution of pay TV that have come into the market, from satellite through to, arguably, LMDS. But we understand

why the ACCC has only looked at analog and not digital, only looked at line links and not satellite delivery transmission media, but the result is somewhat contrived.

The other issue, which is also a statutory issue rather than one that is a problem that the ACCC has created, is that pay TV operators, through that deeming provision and through the application of Part XIC to telecommunications infrastructure, are regulated by an access regime, whereas broadcasters are not. That's just part of the historic fabric that they're trying to grapple with. But when you look forward into the 21st century, when these markets converge and the players start to offer the same sorts of services to customers who don't really care whether it comes via satellite, line links or MDS, the markets become one market that they're attempting to regulate.

PROF SNAPE: Then you're saying then that the ACCC should just deal with this merged media market - I suppose that's what we would call it - just as it deals with any other industry?

MS SHIFF: Well, it has the ability to use its XIC powers. We accept that that is probably going to be part of the regulatory landscape going forward. But what we are approximate for the ACCC to do is to take a forward looking view of the market, not a backward looking view, and to regulate them light-handedly, given that there's a lot of potential investment in those markets still to come.

PROF SNAPE: Yes. You say that telecoms is the only industry which has a specific additional layer of competition law overlaying the generic Part IV, and yet you might regard the whole Broadcasting Services Act as an additional layer that is in fact on the broadcasting industry.

MS SHIFF: Yes.

PROF SNAPE: And indeed perhaps rather more severe in some regards than the specific telecoms one in the Trade Practices Act.

MS SHIFF: Indeed, although if you pulled out the provisions that deal with diversity in content and compared the pure competition regulation then I think that there is more explicit competition regulation of telcos than there is of broadcasters.

PROF SNAPE: Including the cross-media rules?

MS SHIFF: Well, that obviously does impose limitations on broadcasters.

PROF SNAPE: Very substantial ones I think. It means, as we were discussing earlier - I'm not sure if you were here or not - that it prevents, for example, the economics of scale and scope which might be possible between radio and television.

MS SHIFF: I accept that there is that additional layer of regulation there.

MR SIMSON: Could I come at this from another way, because when you look at

the involvement of Telstra in the media today and I'm just referring to page 6 of your submission, Internet access, Foxtel, infrastructure that's important for delivering this, all your content roles that you explained earlier, BigPond, Internet, cable. We read in the paper that you're about to launch yourself into a new Web TV initiative that does not rely on the broadcast spectrum, so you've got big dollops of content and big dollops of carriage. Shouldn't we be looking at you as a broadcaster with a small "b"? I mean, you're not captured obviously by the act, BSA Act as it sits with regards to the free-to-air networks, for example, but given this increasing pervasive role of yourself, aren't you really a broadcaster?

MS SHIFF: Technically not, I think, in that the interactive TV that you refer to is basically Internet. It's just being trialled at the moment. It's attached to an appliance which is a TV provided over the PSDN on a point to point basis but I guess our fundamental - and so we still, I guess, would see ourselves as playing on the Internet space, although the Internet space is becoming more audiovisual. The question then becomes, do you take Telstra and ISPs and content providers in that space and regulate all of them like broadcasters, or do you leave them in a fairly light-handed regime for the content regulation that they provide as they are now, given that they're contributing quite a lot of content diversity into the market?

MR SIMSON: It's just that on the one hand you're appealing for some changes that will, as you put it, level the playing field from your perspective in a competition sense. Perhaps if instead of using the word "broadcaster" we just look at yourself as a media player and we just reflect that you're going to be bringing this whole bunch of content and services into the home over a variety of broadband facilities, not necessarily over the broadcast spectrum of course, and indeed we've had a number of people make submissions to this inquiry who have been saying that there's perhaps going to be two, maybe three or four different ways which an ordinary residential household will be able to access your types of services. Indeed, we had evidence from NTL who are the successor to the National Transmission Agency saying that indeed the PC is going to be much more important or significantly more important than the television set for accessing these services. I'm just trying to get a fix on exactly how you see yourselves because from where I sit, and looking at the suite of content and carriage that you're putting together, you're a major media player, indeed arguably even more significant than even a free-to-air broadcaster.

MS SHIFF: Well, we go out into the market and buy content. We don't own a lot of content and have, you know, back libraries and so on. We don't have a clear view of what our identity will be in the emerging market because it's not clear what the applications will look like or even what the technologies will look like, but what I would say in relation to the fact that we are available to a lot of homes is that that availability, that range of infrastructure that we provide, some of it we provide via, say Optus satellite but say the copper and the HFC to the extent that it's available is governed by an access regime, and to the extent that declarations haven't been made we're under a huge incentive at the moment to bring opportunities not just at the retail end of the market but to the wholesale market, to bring their content to the home as well, to fill up those pipes, so it depends - if you say we are a media player and we

should be treated like one, I guess the issue is what is the problem that we're regulating for here, or not as the case may be.

MR SIMSON: I suppose what I'm referring to is on the one hand you are not having to carry some of the burden, as some of the free-to-airers would see it, and some of the restrictions that exist within the Broadcasting Services Act, but on the other hand you do have rights of carriage that are being currently adjudicated, as most recently as Friday, with regards to Foxtel and that's been less than successful for a number of prospective content suppliers. But, for example, there's no cross-media ownership rules that says that you couldn't go off and buy Fairfax today, for example. The ACCC may or may not have something to say about that but there's nothing to stop you doing that, as Optus observed last week. I'd just be interested to get a feel from you, as a media player, where you see yourself going from here.

MS SHIFF: We're occupying the Internet space and where that Internet space is taking people and to say that we, in that downstream content market, should be regulated is really tantamount to saying that ISP, the Internet world, should be regulated, all that content that comes over the Internet should be regulated, which I think is not a desirable outcome in terms of diversity. I agree with you that there are major acquisitions which we could embark on, not that we contemplate at the moment, which would take us into traditional broadcasting, in which case section 50 would apply and the ACCC would be looking at us very closely. I think that that is appropriate that the competition rules do apply to any acquisitions of that type but that is not the space that we're currently in. We're in this very diverse experimental uncertain world of new broadcasting, Internet-type applications, experimenting with interactive TV, or Web TV as Microsoft calls it, experiment with, you know, offering sort of shelf space, as Fairfax calls it, to content providers who want to provide content in a new and different way to people in their homes via mostly or exclusively at the moment via the PC.

MR SIMSON: I'm not suggesting that you should be regulated but surely in terms of the access issue, given that you're paying in both the content and the carriage camps, does not this place an enormous onus on you to make that access available, whether it's cables or through relationships in Foxtel or through the standards that are set on set-top boxes?

MS SHIFF: Yes.

MR SIMSON: Because you're just so large.

MS SHIFF: We have a wide reach into the Australian home through cable and, to a greater extent, through copper. Whether or not copper can be deployed through ADSL to provide the high bandwidth, mass market broadcasting type services is an unknown. We're obviously trialling all of these things. If we were successful we would make an offering that was not only available to our end customers but to intermediate suppliers so that they could offer competing content packages on that service. Our incentive to do that is partly, as I tried to capture at the beginning,

because we have a lot of - you know, we have a capacity that we want to utilise but also because we have an access regime that would punish us if we didn't make wholesale offerings available in the market. It might be that my colleague would like to talk some more about inter-operability of set-top boxes as that is something that interests us.

MR SIMSON: We'd certainly like - - -

PROF SNAPE: That's something that we've been very interested in, yes.

MR McINTYRE: Yes, I've been involved with the Standards Australia workshops on CT2, which is the group that's specifying the DTTB set-tops. We've taken a position that inter-operability is absolutely vital to that sector of the industry if it's going to grow and be accepted by the public. Through our approaches to standards, they've now set up a separate working group to look at the inter-operability. Telstra has actually listed 12 scenarios that we regard as being possible connections between the network, without any judgment about whether there's a business reason for doing them or some benefit to the country in doing them, just the possibilities of connections like between a broadcaster may broadcast over satellite but be received directly.

It may also be retransmitted on a transmitter tower. You have the scenarios where you might have a broadcast operator who has his free-to-air carried then on cable. You have a scenario where a signal might be received into a multi-dwelling unit where it's merged together with the free-to-air. So you may have a pay service and a free-to-air signal redistributed inside a hotel or a large apartment. So there's many situations that Telstra has identified as being important to get that penetration into the marketplace of digital broadcasting. We also have an involvement with a couple of the national free-to-air stations where we're providing a digital video network to carry their content nationally. We have an interest in making sure that it's compatible with that.

So we've actually worked at several levels to try and get that inter-operability. There is a couple of technical issues that will always be a problem, upward and downward compatible, such as HDTV is a mandated requirement, the specification at the moment also specifies Dolby AC3. So there's some upward compatibility problem if you buy the cheapest possible set-top, say, for datacasting or for pay TV but the high-end set-top has a potential to be used right across the board for the pay TV datacasting operations and that's our model we're aiming for.

PROF SNAPE: So everyone should have Rolls Royces.

MR McINTYRE: You should be able to - - -

PROF SNAPE: We shouldn't have the option of buying a cheap Hyundai.

MR McINTYRE: It is, in the current environment, if the broadcasters broadcast high-definition television with Dolby AC3, if you buy the cheapest set-top you can

suitable for datacasting and pay TV you won't be able to see their pictures. That's just a case of - - -

PROF SNAPE: You won't be able to see it but I suppose the other question is will you be able to buy the cheapest ones or will, in fact, the market be set up so that you can only get the most sophisticated?

MR McINTYRE: I think the Standards Association has taken the view, by specifying this high standard - certainly this has been FACTS position on it - that by specifying this high standard that that will kick start the industry to a point where there won't be any price difference. Now, there's some people who argue that but it's certainly the position they've taken as a commercial position.

PROF SNAPE: We spoke to FACTS last week and it did seem to be a way of - they're argument was what you say. On the hand it did bear the interpretation that it was going to make it very expensive and it's going to make the uptake very slow and it is going to therefore mean that very few people have got digital equipment in 2007 and therefore, as I was pointing out earlier with the ABC and last week in submissions in the hearings - the before in the hearings in Sydney, that we will then be getting analog indefinitely into the future because you've set this extremely high and extremely expensive standard and therefore all that analog spectrum is tied up for the rest of my lifetime and probably Stuart's as well and we never get the competition.

MR McINTYRE: This is in fact one area that Telstra didn't want to wander into because we felt it was outside our scope. However, we have taken a strong stand on all the other inter-operability issues such as the - there's a key area of the service information, which is the headers that are transmitted with the digital broadcast and it would have been very easy to intentionally or accidentally put headers in which might prevent this inter-operability, even if you got everything else right. We've worked with FACTS and the standards group to come up with a specification that we're now fairly confident will mean that at least at that level the signals will be transferable.

There won't be any reason why a signal that was generated for transmission on digital terrestrial can't be carried on cable or can't be carried on satellite. The other area of course as a incompatibility is the area of the tuner, effectively the front end, which is QPSK for satellite, QAM for cable or COFDM for terrestrial. We're imagining that - or our view at the moment is that there will be set-tops in the three, four year period that will come out with multiple front ends. We've received recent reports from Britain where the BSKYB service, which is a satellite service, there's now a what they call a sidecar board which you can plug into the back of a set-top to make it suitable for satellite as well and similar talks for the - your point about the HDTV positioning the market in a certain direction is one that, as I said, Telstra has not felt it had a right to get involved in. We have expressed that we would prefer that there was a fully inter-operable standard even at that level. But we don't believe it's one of our issues.

MS SHIFF: We share your concern that the digital standard of both be

inter-operable and not stymie take-off and penetration.

PROF SNAPE: I would have thought that Telstra was looking at various means, and really all the means, possibly, of distributing and media would in fact have a large incentive to see as many options as soon as possible, and would have an incentive to say, "We mustn't be introducing barriers. We mustn't be introducing things which are going to defer the availability of spectrum into the very indefinite future. But you haven't taken a position on that. I'd have thought that your position would be, well, fairly easily defined?"

MR McINTYRE: This position, it's one that initially came from the HD - it's a spin-off from the HDTV being mandated as a requirement. If you have that mandated requirement, it follows on that you have a 20 megabit signal you need 20 megabits of transmission space.

PROF SNAPE: Yes, I understand that the space is necessary, and that is in the new digital spectrum. I'm talking about the old analog spectrum that's being locked up.

MR McINTYRE: Yes, being locked up.

PROF SNAPE: For a very long time.

MR McINTYRE: You could take the view that if you have a HDTV box, that that in fact is what's doing it. All other issues of inter-operability are irrelevant. But that position would in fact be tied to the HDTV decision, which is mandated.

PROF SNAPE: Yes, but you could still, could you not, have a fairly basic box which could accept an HDTV signal and convert it into analog?

MR McINTYRE: Yes.

PROF SNAPE: The problem, as I would be seeing it, maybe that - and maybe I've got it wrong but - maybe that by specifying that that box does everything and is not just a basic box, then in fact you are going to make sure that very few people get it.

MR McINTYRE: There's not a big step from - the standard box that we see on the market in maybe a year or two will probably be quite capable of all the things that we're thinking of in terms of datacasting and reception of digital TV. The requirement for HDTV is a bit of extra memory and extra pressure on the design of the box. But the Dolby AC3 is a small extra step. But they're not major differences in the price. There's been figures tossed around in standards, depending on which group you're talking to, from \$4 to \$50.

PROF SNAPE: Difference?

MR McINTYRE: Difference in price. Now, I don't know which one is correct, and I'm not in a position to say. But that's the view of the standards group. Some people

are claiming it's only as low as \$4, and that's all we're talking about.

PROF SNAPE: On a price of?

MR McINTYRE: On a price of the - I don't know what the figure is. Effectively these boxes are coming down dramatically in price effectively every six months, and the view that the - I'm only expressing views that I've received from AVA, and not necessarily Telstra's views - from the Standards Association rather, that there is a - that there's not much - once you make the step to go to HDTV, all the other steps are not a significant price difference. If you remove that mandatory requirement for HDTV, it's a different issue altogether. Maybe you're looking at the cheapest mass produced box you can get.

PROF SNAPE: Which would not be able to receive an HDTV signal to convert it into analog?

MR McINTYRE: That's right. In all cases the set-top can convert to an ordinary analog television set.

PROF SNAPE: Right.

MR McINTYRE: But, yes.

MR SIMSON: Mr McIntyre, I was interested in the comment in your submission on page 18 that, "The amount of spectrum to be loaned to the free-to-air broadcasters far exceeds that required for digital conversion," right at the top of page 18. Can you quantify that for us?

MR McINTYRE: I'm not sure. This didn't come from my area. This, I think, was related to - in terms of the retransmission sites and so on.

MS SHIFF: We can take that on notice - - -

MR McINTYRE: We'd have to take it on notice.

PROF SNAPE: This is under the heading of datacasting.

MS SHIFF: We had better take that on notice.

MR SIMSON: It's an important question to ask, because that's not necessarily what the free-to-air would argue, I'd suggest, and second, if you could quantify what you see as this far excess, it would be important, because that's spectrum that would be available for other uses. Indeed, I was going to ask, could you just explain to us what Telstra intends to do in the datacasting area? There is nothing of course to stop you, is there, participating with the News Corps and the Fairfax's and the OzEmails and so on in bidding for spectrum, for datacasting?

MS SHIFF: That's right, but we don't intend to, because we're not looking for another delivery platform. We can do those types of services over Internet or interactive TV on a PSDN or whatever, or HFC. But if the OzEmails or the Fairfax's or whoever had a content proposition that they wanted to transpose onto another delivery platform, we would then go and talk to them in the proper way of doing so, now in a different range of guises.

MR SIMSON: Which goes back to the question I was asking earlier, that really you have such a myriad of opportunities to get the media into the home, the issue of the digital spectrum is almost secondary, isn't it?

MS SHIFF: No, the digital spectrum for datacasting is very experimental, as is some of the other applications that I've been talking about, like interactive TV. But digital TV is very significant in terms of the broadcasting - interactive capabilities that brings with it. So I wouldn't by any means underestimate the power of that in the home via the television set as a rising platform.

MR SIMSON: So from a Telstra perspective the main game is interactivity using digital television, not necessarily the datacasting?

MS SHIFF: Telstra in all honesty doesn't know what the main game is. We don't know whether it's a PC, a TV, what technology, what type of services, very interactive, lazy interactive, not interactive at all. We're trying the lot, in a way, and seeing what customers like. Customers' tastes mature. Customers took a long time to take up fax machines in Australia, and then they became very heavy adopters. So we don't have that vision of the main game.

MR SIMSON: The cable into the home is - given the delays that we've been discussing this morning that will occur because of having to purchase set-top boxes and price and costables - or alternatively the cost of a high definition television - the cable into the home becomes a pretty important access vehicle, doesn't it, on at least a medium term time-frame, for people wishing to access multimedia? It's not the only one, I accept that. But it's a pretty important one.

MS SHIFF: Which cable are you referring to?

MR SIMSON: I'm referring to both the Optus cable or the Foxtel cable for that matter.

MS SHIFF: You've got the terrestrial digital transmission through the TV. You've got the copper lead-in into the home, which people are starting to use in the US to do video and services that consume very high bandwidth volumes in ADSL or HDSL or whatever, and you've got in some areas hybrid fibre co-ax and you've also got satellite, and depending on the area and depending on the application, they all sort of jostle with each other.

MR SIMSON: But I think almost a million homes will be using cable for pay

television. There's already 920,000 within a sort of six to 12-month time frame, and that's putting aside the cables that have been put into people homes but they've tuned, in other words they're dormant, they're not being used because people have dropped off their pay television service. So I'm just asking, that is a very important - I understand there are other ways, ADSL and HDSL or copper wire and satellite and so on. But that's on a medium term basis going to be a very important access point, isn't it, for people to be able to access broadband and behave interactively?

MS SHIFF: It's a potential access point, and obviously that's what our BigPond advance is partially utilising, is utilising cable modem type services. Whether the economics are there to make that the sort of dominant technology, it's difficult to tell. The fact that it may or may not have entree into a million homes well, TV sets are in six and a half million households, and when they go digital they're also a powerful vehicle. Satellite reaches, you know, more again.

PROF SNAPE: The Telstra and the Optus cables have the same capabilities, the cables themselves?

MR McINTYRE: I believe so. To the best of my knowledge they have both the same capacity.

PROF SNAPE: So they could have taken an inter-operable box?

MR McINTYRE: In terms of digital I'd say there's no reason why an inter-operable box couldn't be used in the digital environment. The conditional access systems would need more work determining the standards and how they work and so on too, because that's a key part of the box. But largely, by the time we get to digital there will be a large number of suppliers all producing DVB compliant boxes that will probably be to the same standard. I couldn't see any clear reason why they should be a completely different standard.

PROF SNAPE: Would you envisage if they're going to be available to buy or would they still be tied to a rental arrangement?

MR McINTYRE: I guess that's a commercial decision that's outside my scope but certainly there's no reason why that situation - no technical reason - - -

PROF SNAPE: No technical reason?

MR McINTYRE: No, not technical reason why they couldn't be available from the supply. I believe there's some regulatory reason that pay TV operators have to offer the ability to lease the set. That's only my understanding.

PROF SNAPE: The desirable legislative framework, as I understand it, would be one set of legislation covering both broadcasting and telecoms, is I think what flows out of your submission - one set of legislation covering broadcasting and telecoms which would be media legislation or digital media legislation or whatever you might

call it and then you would see that with that one piece of common legislation being as common as possible across the various types of media, then with the ACCC handling competition issues and then not making any distinction between various types of media according to their degrees of influence in terms of legislation. Would that be a fair summary of the Telstra submission or the implications, I should say?

MS SHIFF: I don't think we've attacked it with that level of sophistication, with respect. We've just started off with a premise that competition would be common as between broadcasting and telecommunications. So that part of the ABA that deals with competition matters would be brought under the purview of the ACCC but any additional rules that are required to deal with diversity or cross-media ownership that are perceived to still be required - and we haven't expressed a view on that - would be still embedded in the ABA as would content regulation and that spectrum management would be under the telecommunications or probably more appropriately the Radio Communications Act and be administered by the Australian Communications Authority.

PROF SNAPE: Yes, I guess one of the things we have to wrestle with in all of this is thinking of the conversions and to the type of scenario that you speak about in terms of equal - treating various forms of media, electronic media, equally. Where does one go then with the regulations as to content? Where does one go with the regulations as to diversity and cross-media rules etcetera? Does that mean that the telecoms or the country telecoms and the way that you're going now are going to have content regulations on them like on what is currently on some forms of broadcasting?

Are you going to have cross-media rules that now extend to the telecoms companies and so on? It's one thing to think about on the technical level but of course that's not the foundation of the Broadcasting Act for example. It bases the various types of regulation for various types of broadcasting on, "The degree of influence that different types of broadcasting services are able to exert in shaping community views in Australia." So therefore it then makes different rules for television, for radio, for narrowcasting etcetera and then has cross-media rules as well. That's an essential part of the whole Broadcasting Act and the foundation of the distinctions between - where do we go with that when you go into this one set of regulations that is flowing from the technical perception that you have? Where do we go with all of that?

MS SHIFF: This is something on which we would clearly like to engage further and we don't have the magic answer to it. But the one thing that we are quite concerned about is that you don't confuse control over infrastructure, which is already regulated, with control over the viewing public because the access to the infrastructure is regulated and there's no bottleneck there. Diversity is coming down those pipes and content providers can either directly access those customers or bundle up their own services with these new forms of Internet generated type audiovisual services. Why create cross-media rules and regulations that pertain to a different sort of technology and a different set of influences. It's really a question rather than a solution.

PROF SNAPE: Yes. I guess what we're having to wrestle with is those having been created in the context of an old technology and so on but addressing clearly articulated government and community objectives in terms of plurality of views and diversity in many dimensions. Where do we go in those matters with the new technology?

MS SHIFF: This is not a fully-fledged report but I think the other issue that concerns us is that when the ACCC in the future looks at emerging markets - and we hope that it does so light-handedly, given the nature of investment in those markets - that if it's trying to affect social policy goals for example to give niche programmers opportunity that they otherwise wouldn't have to climb on the back of infrastructure or to do the deals that the big media owners can do, that it's done through an explicit policy instrument and it's done and applied to all people who have that influence over the eyeballs in the community, not just over telcos or not just over broadcasters, that there is a level of explicit uniformity that exists so if you wanted to have must-carry rules, they were general across all media and not distorted as they potentially could be, going forward.

PROF SNAPE: How would you see a must-carry rule apply to free-to-air television?

MS SHIFF: I don't know. I haven't figured out how you would implement such a rule. I guess I'm just reflecting the fact that if you wanted to create an entirely different set of rules to apply to the new convergent world that it's important that it's done through an explicit policy instrument and not through backdoor competition regulation.

PROF SNAPE: Yes, I see that. You do make much in your submission of this distinction between the access requirements that are being put upon particularly the cable operators and contrasting that - and you do it very vigorously - with the absence of any similar rule or possibly with respect to the free-to-air television stations. I can see that that is a concern to you. I'm trying to see now if there is to be a continuation of an access rule on the cables then what do you do to balance it up with the free-to-air?

MS SHIFF: The obvious target would be the gateway to the home in the digital set-top box.

PROF SNAPE: You would require that then to be inter-operable.

MS SHIFF: Yes, or you'd let standards be worked out, but with the sort of reserved power for establishing standard that you have in the telecommunications industry, so you'd base it on the same sort of precepts of regulation that apply in the telecommunications industry, which is let the industry sort it out first but to give some reserve powers to regulators.

PROF SNAPE: And you'd want the copper wire to be able to be connected up to a set-top box?

MS SHIFF: The copper wire is already connected up to a set-top box, is already regulated under Part XIC or potentially regulated. It's regulated to the extent that it carries pay TV, to the extent that it's offering ADSL - well, it is possibly regulated because with the ACCC moving to declare unbundled copper, it would probably bring in some provisions that related to conditional access units. I'm just thinking aloud, sorry.

PROF SNAPE: I'm a technology ignoramus so bear with me for a moment or two. Are we talking basically about connecting the telephone wire up to a set-top box? Is that correct?

MS SHIFF: Yes.

MR McINTYRE: There is some limitations of an ADSL-style set-top box because generally, particularly with ADSL, you're talking a much lower bit rate so you wouldn't be able to get say several simultaneous channels arriving at the set-top and just tune between them. You have to actually switch the contents somewhere back in the contents, so to get even five free-to-air channels on a set-top box, you would have to originate the channels somewhere and put in some control mechanism for feeding them separately.

PROF SNAPE: But that technology is changing fairly rapidly, is it?

MR McINTYRE: Yes, it's changing. It's hard to imagine an ADSL set-top being compatible with say a standard DVB set-top that you'd use for terrestrial cable and satellite.

MR SIMSON: It's that which actually brings me back to that point of the cable side because you are the largest cable operator in the country. The ACCC has made a draft declaration of access. However, Foxtel, of which you own 50 per cent, is saying that there's a deal that predates that in terms of access which means that there is a problem. I notice in the paper, the Financial Review, that a Telstra spokesman said - this is in response to the ACCC draft determination - a Telstra spokesman said, "The world has moved," since the ACCC began looking at the access issue and "Telstra is disappointed that the ACCC hasn't." Could you just explain to us what you're saying there or what the spokesman was saying there?

MS SHIFF: I think this reverts to the discussion that we were having about the fact that the ACCC at the very beginning actually was somewhat constrained because it had to validate a requirement that should have existed that pay TV operators give access to line links for the purposes of providing pay TV signals.

The disappointment that was being expressed there was that markets and delivery mechanisms have moved on. The commercial reality is that's what should

have been put in place in 1997. As far as pay TV is concerned, there were contractual rights for exclusivity that existed between Telstra and Foxtel that, if they were upheld by a court, would void the declaration insofar as it applies to pay TV over the cable.

MR SIMSON: But that means that other people can't get access to the Foxtel cable.

MS SHIFF: No, the cable is the Telstra cable and people get access to the cable for non-pay TV purposes in a myriad of ways through cable modem-type services and so on and so forth. There is an exclusive arrangement with Foxtel for the delivery of pay TV and content providers have to come into Foxtel to lodge their content.

MR SIMSON: Sorry, that's what I was trying to refer to.

MS SHIFF: If it's upheld, it will have an effect on whether people can come to Telstra to deliver pay TV services over the cable for them in lieu of Foxtel. They can still come to Optus or Austar or whatever. I'm not sure that there are a lot of pay TV operators out there jostling. I think there are some niche operators, very niche. Then it goes back to the comment that I was making about must-carry, that if what this is really about, this picking up low-scale narrow interest-type programming, then it's really becoming more like a broadcasting issue of putting a requirement on all people who deliver broadcasting or pay TV services to the home to pick up niche programmers. There was a hunger for content out there and these are the people who have - notwithstanding the fact that this appears to have been invalid from day one, it's really only emerged as an issue a year or two later and I think the commercial take on it is that most good content is being picked up by pay TV operators. There is a hunger for really good content and a lot of content. There is a massive hunger for content through the other parts of the cable that are doing these new and innovative services.

MR SIMSON: We've heard submissions from a number of people who have said that they can't get their content onto Foxtel. They can't get their content onto Optus. It's partly to do with, they argue, the ownership of various channels and programs within the program lineups of those two groups, so from their perspective - - -

MS SHIFF: But what's the difference between those people saying, "We can't get our content onto a free-to-air?"

MR SIMSON: Perhaps none, perhaps not. But that's not their complaint. Their complaint is that - - -

MS SHIFF: But in policy terms, what is the difference?

MR SIMSON: There may not be any difference but they want to get their content onto pay television because they think pay television is the right vehicle for their specific content and under the existing Foxtel arrangement, they've expressed difficulty in being able to do that because of the control of Foxtel and Optus for that matter, and Austar for that matter have over their program lineups. Am I correct to

say that Telstra, even under the existing Foxtel arrangement, can offer quite separate to that "narrowcast" broadcast services utilising the cable?

MS SHIFF: I'm not sure if that's the correct term for it but there are - and I don't have all the information in front of me, but there are clearly services that are not within the scope of the exclusivity and there is scope for example to do interactive and subscription-type content services through the Internet and potentially delivered via a TV in the future so there is the sort of shelf space there in the future for those kinds of business cases, I think.

MR SIMSON: I just thought that under your arrangement with Foxtel, you also had the opportunity to do the narrowcast programming.

PROF SNAPE: Are you giving us a feel then of what the range of the exclusivity deal is?

MS SHIFF: It's broadly speaking traditional pay TV entertainment subscription services.

PROF SNAPE: How long does it go for?

MS SHIFF: I can't answer that actually.

PROF SNAPE: It's before the courts at the moment, is it?

MS SHIFF: No, it's not before the courts.

PROF SNAPE: I thought you said if the court upheld it.

MS SHIFF: Well, if it became an issue, but it's a question of establishing those rights. They're the same rights that exist under Part IIIA for people who have invested in infrastructure and have entered into contracts and whose rights - I mean, it's just a constitutional protection. It's not a conspiracy.

PROF SNAPE: Could I go to another form of exclusivity and that's anti-syphoning rules which is of interest to you. You comment about the anti-syphoning rules, you don't like them obviously. Yes, I am, anti-syphoning on page 16. I've read so many submissions over the weekend that I had a horrible feeling that I'd skipped submissions but, no, it's on page 16.

Telstra Control considers that the anti-syphoning rules impose unjustifiable constraint on the ability of subscription television broadcasters to provide sports programming.

We have, of course, heard this complaint from a number of people and I was just going to bounce off you what Telstra's attitude would be to an arrangement that just said that neither the free television nor the pay television would be able to enter

into exclusive contracts for any sporting event. Would you see that from Telstra's point of view as acceptable?

MS SHIFF: This is just a personal reaction but it's that there's nothing wrong with exclusivity. I mean, it's how you get the advertising and the, sort of, sponsorship dollar respectively and there's something about having mandatory non-exclusivity that I would worry would kill the commerciality of just sports programming itself. It seems to me that the way to deal with this is - as suggested by ASTRA - if the rules are to be retained, to more rigorously examine the scope of the services that are subject to the list and look more closely at how hoarding and other abuses are administered. So it would be a more conservative approach than what you're suggesting.

MR SIMSON: In the radio area - if we could go to page 19 of your submission - it's conceivable, and indeed I may even have read something about this, that pay television could in fact begin offering radio services. In fact there are, I think, one or two areas that that may occur. I'm just trying to line that up against your comment there relating to the declaration of the DSB band, the digital services band. Are you saying that that would give that sector an unfair advantage?

MS SHIFF: No, look, just take the examples given as evidence of the fact that bits of spectrum can be used for different things but bits of spectrum have been peculiarly not allocated under broadcasting regulation for broadcasting-type applications. The Radcoms Act has moved entirely away from that form of regulation. So spectrum is spectrum and it goes to the person who puts the most value on it, by and large, including through spectrum auctions. And so all that this analysis is really saying is, there are competing uses within broadcasting and there are competing uses between broadcasting and other types of services that consumers value that use the same bit of spectrum and that if you wanted to get a more coherent view of what the public interest was, you would have an administrator of spectrum who could look more broadly across those uses and treat spectrum as spectrum.

MR SIMSON: So you would you wish to compete with radio licence holders for spectrum?

MS SHIFF: We compete with everybody for spectrum at the moment.

MR SIMSON: No, no, in the - - -

MS SHIFF: We not only compete for spectrum but applications that rely on spectrum, like fixed links - which are much like broadcasting fixed links - are being redeemed under the spectrum licence arrangement. So you become a temporary tenant of spectrum and you compete for it like everybody else.

MR SIMSON: But could you participate in an auction or would you wish to participate in an auction for digital spectrum?

MS SHIFF: In theory I'm not sure if there's sort of a commercial issue that you're pursuing here or whether - - -

MR SIMSON: I'm just trying to understand the scope of your intentions, that's all.

MS SHIFF: The scope of the intentions is to just bring the administration under one body and then how much of the existing - I mean, obviously you're not going to take Spectrum away from free-to-air. So it's more when new spectrum becomes available you would transition in the general regime that applies across the radio communications area. We don't have a commercial target in mind here.

MR SIMSON: Could I just go back to the point that Prof Snape was discussing with you earlier about the local content requirements, quota requirements, as they currently exist to the broadcasters. If the government were to say that there should continue to be local content quota requirements, what's the logic in saying that those should only be applicable to free-to-air television, and is the case also now, there's not an actual quota on pay television, there's an expenditure that must be spent on pay in local content? In a situation where, as you've pointed out, there's going to be a number of different ways in which people will be able to, using your facilities, access media, where in your mind do you draw the line as to where these content requirements should sit in terms from a perspective of a particular point of access or carriage and not sit?

MS SHIFF: That's a very difficult question actually.

MR SIMSON: I suppose what I'm saying in a nutshell, why shouldn't they apply to the content that you're bringing into people's homes as well as the content that free-to-air broadcasters bring in - - -

MS SHIFF: Because the further you go away from free-to-air substitute services, which is arguably pay TV, into Internet content, you're looking at content which is 90 per cent from offshore and where you've got very little opportunity to control that pipe.

MR SIMSON: But that's a matter of choice for the consumer, isn't it? I mean, let's take a hypothetical example. In a Telstra BigPond broadband service, whether by satellite or by cable or ISDN or whatever, you're bringing content into the home. Why shouldn't there be the same regulation that applies to you in terms of local content as a media - - -

MS SHIFF: I don't know the answer to this but let me just postulate a problem and perhaps I'm not explaining this clearly but if the new media, which is grown out of the Internet space, comes through ADSL for example, and it's sort of layered so that you can go to service provider one to 10, and then service provider five to six will also give you data or telephony or whatever - which is conceivable - Telstra is not going to be the person who controls that content. There will be service providers who sit on top of the network who'll be providing the content in that sort of interactive

environment.

MR SIMSON: That's so.

MS SHIFF: And a lot of it will be pure Internet. It will be cached in the US, which is where most of it comes from at the moment.

MR SIMSON: No, fair point, but Telstra BigPond, for example is also going about collecting its own content, as opposed to that content that you might get from a cache or from an overseas provider. I mean, Telstra BigPond home, in terms of your current Internet space, your copper wire space, and in your broadband space is putting together content with various people, Australian people. I mean, in Australia here, okay?

MS SHIFF: We are.

MR SIMSON: Why shouldn't that content be also subject, under a competitive neutrality arrangement, to the sort of quota or other content arrangements that other broadcasters or even media are obligated to do?

MR McINTYRE: There's an incentive to the Internet service providers who are doing point-to-point and the customer is making the choice about what they go and collect, whether they collect something locally or whether they collect it from the US. Telstra - - -

MR SIMSON: But you can say that about pay television too.

MR McINTYRE: I know, but to a certain extent the Internet service providers have a real incentive to get it locally if they can because we pay a lot of money for those links out of Australia which are effectively an extra cost. So there's an incentive, there's a natural incentive to do that.

MS SHIFF: I think this is quite a complex question because it depends a lot on the nature of the ultimate service. I mean, if it's an e-commerce service then the value to the customer of that service is that they can go to maceys.com as well as to myers.com. So it's not like traditional content but can we take this - I mean, I don't want to give you a facile response to this and perhaps we can give it some more thought and take it on notice.

MR SIMSON: We're just trying to get our heads around how a regulation such as content quotas can sit in a converging marketplace - - -

MS SHIFF: Indeed, indeed.

MR SIMSON: - - - where people are not just getting the content from free-to-air television, they're getting it from pay - and pay, by the way, is you choose which channel. What we know is that there's going to be other film based content coming in

via other access mechanisms, other ways of carriage. Where do you draw the line, that's the question that we're - - -

MS SHIFF: We'll give that further thought.

MR SIMSON: - - - throwing up here on that particular point. Telstra is also emerging as a player in the advertising market, that is winning advertising dollars for its media services into the home, obviously through Foxtel, through your relationship there, but also in some of your broadband and your other Internet services. Could you just talk with us about how you see that evolution from a Telstra perspective, because it is something relatively new for you, isn't it, to going out and competing with the newspapers and the other commercial television operators for media dollars?

MS SHIFF: I might hand over to my marketing colleague to discuss this.

MR NOONAN: Richard Noonan. I work at Business Development in Internet Services.

PROF SNAPE: Could you say the name again, please?

MR NOONAN: Richard Noonan, Internet Services at Telstra's Business Development. The only comment I'd make would be that it's I guess not a new area for us because we've been a partner in Pacific Access, which is our yellow and white pages, and that is based on collecting advertising revenue. But I think that there's no real view on how the online advertising revenue area is going to develop other than it's very small at the moment and there's a number of players in the area but there's no real picture of how it will evolve. If you have a look at it in terms of other advertising spent it doesn't even show up on the graphs. It is very small.

MS SHIFF: I think it's fair to say that there are, as you'd appreciate, a lot of competing business models on the Internet and this is one of them.

MR SIMSON: It's just that what I've been casting around for is some clarity on where you might see yourself being in five years. You clearly are into both access or carriage and content, okay, and increasingly so. This is an important issue for us because we've had free-to-air broadcasters, commercial free-to-air broadcasters sit here and basically flag that on a 10-year time-frame that they're biggest competitor, as they see it when they look at the market capitalisations of people here and overseas, is going to be yourself, it's going to be Telstra, not necessarily other free-to-air and not necessarily other newspapers. You're into advertising dollars, you're into content, you're into pay television, you're into a suite of broadband access and yet, as Prof Snape pointed out earlier, you're looking for competitive neutrality in terms of those aspects. The people on the other side of the fence, all those other players are screaming for a body from your perspective.

MS SHIFF: But with respect, our participation in the market, notwithstanding what people say about physical access to the latest model, which has obviously been

contentious in the past year - although I think that a lot of those issues will be regulated and resolved - that our participation in the market has been across all of these different applications because we don't know which is the most likely to succeed and, with respect, has created diversity. It's creating a diverse type of information and entertainment medium that the free-to-air have not had to confront hitherto. So if our participation in the market was giving rise to consolidation and the sort of spectre of cultural control then I would say yes, dig out the old Broadcasting Services Act and apply those old rules, but I can see no evidence of that. In fact the participation in the market is creating an enormous heterogeneity and an enormous spread of opportunity and risk for people who want to get into content.

MR SIMSON: Thank you.

PROF SNAPE: Thank you very much for your very helpful and closely argued submission. I read it yesterday just when I thought I was going to be able to relax a little bit and you helped to ruin my Sunday. Nevertheless, thank you very much for that.

MS SHIFF: Thank you. Thanks for the opportunity.

PROF SNAPE: Also thank you very much for your participation today.

MS SHIFF: Thanks.

PROF SNAPE: We now adjourn until 2 o'clock and at 2 o'clock we shall be having the Australian Churches Media Association. As I mentioned before, the DMG will be coming in some time in the afternoon.

(Luncheon adjournment)

PROF SNAPE: Let's resume our hearings after lunch. We welcome the Australian Churches Media Association. Mr Thomas, if you would like to identify yourself for the transcript and then speak to your submission, thank you.

MR THOMAS: Thank you. My name is Peter Thomas and I'm the vice chairman of the Australian Churches Media Association. You have the transcript before you and on the first page we identify who ACMA are. The Australian Churches Media Association has been operating really almost since the inception of television in 1956 and since that time we have represented the interests of churches or church agencies that have been involved in television production, essentially for commercial free-to-air television. We have members in all states of Australia. A lot of them are identified as Christian television associations. They are ecumenical bodies. Some of them would include a range of churches from both Catholic, Protestant but exclusively Christian churches. Some are agencies representing individual denominations such as the Catholic Church and Anglicans.

ACMA had basically an advocacy role. Our task has been to deal with the old Broadcasting Control Board, the Australian Broadcasting Tribunal and then of course in recent times with the ABA, with people like the Federation of Australian Commercial Television Stations and with the Department of Communications. We felt that we would make a submission to the Productivity Commission because we believe that we're a significant social group contributing to television in Australia and that we have had some difficulty in recent times in the protection, if you like, of the provision within the act that has governed religious television.

Page 3 just lists the membership. I won't go through that but, as I said before, some of that is ecumenical in that there are a number of different churches that belong to these organisations and some are just church based. The background I mentioned before, that we've been operating since 1956, I mentioned in our history there that in Australia that we've so far avoided that American experience of what we'd call the electronic church. That used to be quite of interest to a lot of licensees. In fact, on many occasions we were approached by different networks who used to ask our opinions about whether they should allow certain programs to air. That very rarely happens these days, it's a different marketplace. But I would suggest that the provision within the Broadcasting Act of maintaining some kind of religious presence on commercial free-to-air does have I think some impact on the fact that what is represented is Australian spirituality more than perhaps some of the electronic church type material which is usually I think material where they ask for funds.

The current situation under the Broadcasting Services Act 1992 is that there is provision there in the condition in schedule 2 of the BSA but it says that:

Licensees will broadcast matter of a religious nature during such periods as the ABA determines and, if the ABA directs, will do so without charge.

Prior to 1992 and going right back of course to actually 1943 with radio the churches always has some kind of determination or standard which was handed down by the

ABA or the respective regulatory body. That hasn't happened since 1992 and we've been going backwards and forwards between the Federation of Australian Commercial Television Stations and the Australian Broadcasting Tribunal asking somebody to make some determination in this matter. Most of the networks, I must say, have said that they will continue, the status quo remains, and that certainly has been the experience of most of our membership except that it's our feeling that because there is no determination there that the deal, if you like, that we get these days has been weakened somewhat.

It's been weakened to the extent that a number of new program directors and managers of stations not familiar with the history of religious television in Australia have felt no obligation to provide any kind of religious broadcasting at all. So we've had to work fairly hard, I suppose, at maintaining our position, if you like, to put it in commercial terms, in the marketplace. We believe that the ABA have decided not to make any determination because of, if you like, the deregulatory spirit that was adopted with the new Broadcasting Services Act but we felt that facts would have made some provision in their code of practice and they've failed to do so. It makes it extremely difficult for a number of our members when they're trying to negotiate with television stations.

Going on to page 5, I've covered on-air there I think, but on page 5, the cultural expression on mainstream TV, ACMA believes that broadcasting has an important role to play in reflecting the expression of religious and cultural diversity within Australian society and how we play an important part in Australian society. We would maintain that there is a role for us in the expression of Australian spirituality. All of our members produce original material. There are some instances where we import material from other parts of the world but it's always seen, if you like, in the context of Australia. So that we strive to present to viewers those beliefs, those ideas, those experiences in the contemporary world which are related to a religious interpretation or dimension of life in Australia.

Our vulnerability - I think like children's programs and Australian content to some extent religious programming is vulnerable to the overriding commercial imperatives and that's why I think that the parliament has always seen that there is some necessity for mandatory incentives for its broadcast. I mean, that was clear I think in 1943, it was clear again in subsequent times when the act has been reviewed and certainly we believe that it was clear in 1992 when the act was reviewed because it is still there as a condition in the Broadcast Services Act. We also make some claim under adequate and comprehensive programming that there is an important requirement there to make some kind of representation of religious television.

Just a brief comment about community and pay TV. On community television, and I suppose I'm talking about channel 31s around Australia, there is some representation of religion on those but it tends to again not come from the so-called mainstream churches but essentially, I would suggest, those people that are willing to pay for religious material. Also there are some Christian radio stations around Australia.

It's very interesting, I remember visiting the Department of Communications back in 1992 and one of the department officials telling me at that time that the churches shouldn't worry about radio in future because, in fact, there would be plenty of opportunity for the churches to be involved in community radio. In fact, he said, and he showed me a wad of submissions, "These are all church radio stations." I informed him that that wasn't so, in fact, they were disparate groups that had got together and none of them actually represented any diocese, archdiocese or synod of any of the mainstream churches and I think that's an important distinction to make. That's probably our fault for not pointing that out but it certainly brought home to me the fact that they in Canberra were certainly under the impression that the churches were heavily involved in community radio and that certainly is not the case to this day.

With pay television I guess, like everybody else, we thought we would be in there like Flynn. There is a Christian television station operating, Optus has one at the moment, but a fair percentage of that now comes from the United States of America and our membership would also suggest that it is largely of a particular theological bent, of a more fundamentalist persuasion and so therefore doesn't represent what we would suggest are the mainstream churches of Australia.

Finally, on page 7, I've just given some facts and figures about religion in Australia today, just in terms of its significance. Of course there have been pretty big changes in the religious constituency of Australia but I think that those figures are still quite demonstrative of the number of people that still attend church and the number of people that show their adherence to a religious denomination. I think it is important to realise that ACMA is still very supportive of other religious traditions. Whilst our association is fundamentally a Christian organisation, we would put up exactly the same case for Buddhists or Hindus or any other religious organisation that wanted to partake, if you like, in the provision under the act.

So just in summary, ACMA members represent the churches that constitute 70 per cent plus of the Australia population, so we are very representative of the churches in Australia. We work in the field of religious television productions, supplying programming for commercial television. We rely on air time and facilities provided by commercial television stations and networks under that provision as outlined in the BSA. The relationships between stations and between the churches has been generally a good one and established over many years.

Our programs and our little telespots - that's longer length programs and also the small 15 to 60 second spots - are provided under those standard conditions in schedule 2 part 372C of the Broadcast Services Act. We believe that we need a regulatory direction in order for stations to provide this programming service because of our vulnerability. It is very difficult for stations to get sponsorship for religious programming. ACMA members provide Australian content and represent Australian spirituality. We represent a diversity of religious viewpoints within Christianity. We cooperate with stations and networks to comply with programming requirements and of course we acknowledge the right of other religious groups, Christian and

non-Christian to broadcasting access. Thank you.

PROF SNAPE: Thank you very much, Mr Thomas. I suppose I was wondering a little bit about the pay television aspect of it, that the mainstream churches had not, in fact, taken a prominent role in finding a spot on pay television. Could you tell me why?

MR THOMAS: I think there are a couple of reasons. Certainly the Catholic Church has at one stage there tried very hard. When we worked out our arithmetic we decided that it wasn't really - it was an extremely risky business. Extremely risky business. That's not to say that in the future this won't happen. I think that quite possibly at a point some time in the future I believe that the churches will be into pay television. I know that there was a major lobby group within the Catholic Church in particular that was trying to get a pay television channel. That hasn't happened and it hasn't happened purely for economic reasons. To the best of my knowledge all of our other membership have also canvassed the idea of getting into pay television in one way or another but at this stage it is just too difficult. As I say, that may not preclude us from entering in the future but I know that as recent as just a couple of months ago we were looking again at trying to make some entry into pay television but at this point none of the churches see it as being economically viable in the short or even in the medium term.

PROF SNAPE: Yes, I was thinking not necessarily a whole channel, although that is obviously another possibility, but really as content providers to a more general channel. For example, maybe some of the children's programming, either on pay or on free-to-air but perhaps on pay, or just on a regular channel, that they may find it worthwhile to carry a religious service.

MR THOMAS: Certainly a number of agencies have provided programs. In my own case, for example, we've had two or three programs which have gone on various pay television channels after they have been on free-to-air. Our membership believes that at the moment the figures for pay television are quite low. The uptake hasn't been as great, I don't think, as people anticipated originally, and most of the churches would not see it worthwhile putting their money, if you like, into pay television production in the way that they do for free-to-air. I think in time perhaps that may be the way that we go, but it certainly isn't at the moment. But there a number, I know - I think the Anglicans in Sydney, for example, produce a children's program, and I understand that some of those children's programs have actually gone onto pay television. But as for producing for pay television, our membership believes at this stage that, whilst we have provision in the act for free-to-air commercial television, it is not worth our while turning our attention to pay.

MR SIMSON: Have you struck any opposition from the pay TV operators to actually wanting to carry a channel, putting aside the one side, economics, of it?

MR THOMAS: I haven't been involved with direct negotiations with cable operators. I know of people that have and, no. I mean, I think the pay people are

pragmatic. If you come along and offer them 4,000,000 subscribers, of course they're going to give you a channel. The fact is that we can't guarantee that. Most of the churches can't raise the capital or haven't been able to at this stage to be able to undertake the kind of marketing campaign that is necessary to get a cable television channel operative.

MR SIMSON: Is that to do with the different, to use your term, fundraising approaches of the Australian churches as opposed to the way it's happening in America?

MR THOMAS: Yes. I'm not sure whether this is an appropriate place to bring up theology, but the fact is that we have been very - - -

PROF SNAPE: We're covering everything else, so we may as well.

MR THOMAS: All right. There's not a lot of difference between economics and theology. But, anyway, we have always had a consistent policy of never asking for money on air, and I think that really we have learnt - there would be probably a few people within our membership who would see that as being appropriate, but overwhelmingly the majority of our membership in the mainstream churches think that that is an inappropriate thing to do. I don't know whether that will change in the future in relation to different forms of media, but certainly our experience in looking at the American experience hasn't been a good one. The American electronic church, if you like, has been one of fairly heavy proselytising and fairly heavy asking for funds to keep themselves on air.

PROF SNAPE: That's not mainstream church in the States though, either.

MR THOMAS: The mainstream church in the States has virtually stayed out of cable television. There is one major cable operator, Odyssey Channel, which is running but actually has just sold out half of its interests to Hallmark because it hasn't been able to sustain its programming. So the mainstream churches in the United States are actually not very involved in cable, certainly at a national level. At some very local levels they had educational channels and those kinds of things, but if you're looking nationally or even state-wide that is not the case in the United States and certainly isn't the case in Europe.

MR SIMSON: The programs that you provide the free-to-air here, how do they rate?

MR THOMAS: It depends. I mean, one program, for example, that I shot in Israel last year was put to air at 10.30 on Easter Sunday night and that rated about a 7.7, which was number 2. It beat the swimming on Nine and I think it was out-rated by the Sports Tonight on Channel 10. It really depends on the programming. We try to negotiate with television stations. Historically that has been difficult because I think television stations have had a mind-set that here are the providers, the church is over here, and that we provide a package, then they determine whether that package is

worthwhile to go on at 3 o'clock in the morning or worthwhile to go on at 10 o'clock at night. I think that's very unfortunate. I think there should be - and certainly there are instances in my own agency, for example. I have a very good relationship with the Seven Network and that has proved I think beneficial to them and beneficial to ourselves.

But I don't blame the agencies. I think sometimes the stations have a mind-set which sometimes pushes the agencies into producing programs which often don't rate because there hasn't been the level of cooperation, which happens with every other sort of programming.

MR SIMSON: But implicit in what you're saying is that the networks wouldn't run the stuff on their own volition unless there was some regulatory nudge to do so.

MR THOMAS: Absolutely. I don't believe they would, no.

MR SIMSON: If that's so, I suppose we should ask, why should they? If they don't perceive that there's a demand for the product - we've been asking the same question, by the way, about a lot of other local content regulations and quotas, so I'm not taking a cheap shot at your particular genre, programming in this context.

MR THOMAS: Sure, yes, I understand.

MR SIMSON: I'm just wondering if the demand is not there why they should have to do it.

MR THOMAS: I would put it into the same category, if you like, of preschool children's programming and other forms where there are conditions on the licence to say that they must, because there's a recognition, if you like, within society that those programs are essential and should be on air. Many of those programs don't rate, either. If you look at the Australian Children's Television Foundation, what does commercial television do to those programs? Generally they smother them into early morning time slots because they don't rate in the same way as, say, cartoons. So I think it depends whether one philosophically thinks of television as having some social responsibility. Obviously we would argue that they do have a social responsibility and that includes the expression of, well, some kind of religious expression.

MR SIMSON: But in any event it's relatively low cost for them anyway, isn't it?

MR THOMAS: It's extremely low cost. In fact we have found that the facilities, apart from one network, the Seven Network, are extremely generous. Well, some of the other networks - well, 10 are too - but we have found that the facilities provided are getting less and less from networks and I think that that probably has something to do with the fact that there is that condition on the licence, as I said before. But the condition doesn't have any mandatory determination or standard, and I know that as far as the Federation of Australian Commercial Television Stations are concerned, they say they want to continue to allow us to produce television programs but we are

very well aware in speaking with managements throughout Australia that there is a very different mind-set since that determination has been removed.

PROF SNAPE: You're in television only.

MR THOMAS: Yes, we are.

PROF SNAPE: I was wondering why you didn't embrace radio as well.

MR THOMAS: Well, in fact we did.

PROF SNAPE: In the sense that we've heard from the ABC this morning as to how there were economies of scale and scope of being in both radio and television.

MR THOMAS: Yes.

PROF SNAPE: So I wondered why you weren't following that path.

MR THOMAS: Well, up till 1992 of course there was provision within the Broadcasting Act for religion on radio. Once that went in the act we knew that commercial radio in particular was going down a track that made it very difficult for us to participate. We did participate. We produced all sorts of little 30 second spots and so forth, and there would be a number of radio stations throughout Australia that still program them under community service but, generally speaking, I think because of the huge diversity of radio stations, community radio stations, what happened is the Department of Communications made the recommendation that there should not be a provision within the act. Some of our membership still do produce radio material but we generally these days don't represent them in terms of any advocacy because, as I say, there's no provision in the act.

PROF SNAPE: But the mainstream churches, unlike some of the non-mainstream, have not found it worthwhile to develop community radio or narrowcasting?

MR THOMAS: They haven't up until this point, no. I mean, I think in Brisbane there is a Catholic parish that has a very small narrowcast radio station and there would be some examples throughout Australia of the churches participating in community radio, that's true, but generally speaking the churches have not actually applied for any community radio licences, and I am a little bit rusty in radio because my concentration is solely in television and I can't really answer that question as to why they haven't done that.

MR SIMSON: Specifically, is there anything else that you're requesting of us, apart from the specific reference to - as you request - some firming-up of the obligation in the act since the change in 1992? Is there any other part of the act that concerns you or impacts on you?

MR THOMAS: No. I've come here today really just to talk about that part of the

act which affects us directly and I suppose to argue the fact, as I say, that we believe that there is a social responsibility, and we would like that part of the act - some kind of determination to be made by the ABA or some kind of code of practice within the codes as put out by the Federation of Australian Commercial Television Stations.

PROF SNAPE: Good.

MR THOMAS: Thank you.

PROF SNAPE: Thanks very much, Mr Thomas.

MR THOMAS: Thank you very much.

PROF SNAPE: Thank you. Since we've got them seated here, they're chaffing at the barrier. My apologies. We welcome 3UZ Pty Ltd (Sport 927) and we have three representatives from 3UZ, and we would ask them each to identify themselves on the transcript, that is, all those who are going to speak, for the purposes of the transcript, and off we go.

MR CROWE: Good afternoon. My name is Noel Crowe, general manager of Radio 3UZ or 3UZ Radio Sport 927. Also talking to our submission today is Neil McCrae who is one of our directors.

PROF SNAPE: No, we need his voice on the transcript please.

MR McCRAE: My name is Neil McCrae. I'm a director of 3UZ Pty Ltd.

PROF SNAPE: Thank you very much. Now, Mr Crowe, you're going to speak to us.

MR CROWE: Yes.

PROF SNAPE: Thank you.

MR CROWE: At the outset we'd like to thank the commission for the opportunity of having input into this inquiry which we regard as both appropriate and very timely. I think we've adequately explained the unique role of Sport 927 in the Melbourne commercial radio market and also the ownership which is detailed on page 4 of our written submission. Today we intend to talk briefly to the main aspects of that submission and then demonstrate to the commission radio of the future, that is, digital radio broadcasting or, as it's known, DRB. Our submission is restricted to four specific areas of interest to our company or radio station. Those areas are identified under the following headings in the issues paper: The Changing Nature of Broadcasting; the Public Interest and Objectives of Broadcasting Policy, Australia's Current Broadcasting Regulation; and the Role of the Australian Broadcasting Authority, or the ABA.

The first issue, the Changing Nature of Broadcasting. The rapid pace of technological development presents legislators and the broadcasting industry with many significant challenges, the outcomes of which will impact on the future of commercial viability of the radio broadcasting industry as well as the inevitable impacts on society. We contend that in this environment of rapid technological development radio broadcasting faces its greatest ever challenge, a challenge even more significant than that faced with the introduction of television in 1956. When we consider that consumers are now able to listen to radio stations broadcast from around the world through the Internet, satellite broadcasters like World Space are technically capable of delivering hundreds, if not thousands, of radio services or formats into every Australian household, with that service emanating from anywhere in the world.

Imagine if we will, that Australian children are under the further influence of other cultures and trends and also the possibility of there being no promotion nor protection of Australian talent, and also that traditional broadcasting service areas that all radio stations must conform to as part of their licence, they are immediately eliminated. We submit that any amendment to policy should enable radio broadcasters the ability to compete effectively and efficiently with those new media; specifically that radio broadcast licence areas be determined according to format classification. For example, policy that would enable certain radio formats or narrowcast or unique formats, such as Racing Radio that we broadcast, to be transmitted in future by satellite to expand the geographic areas through changes to the service areas imposed as part of those licences through which they broadcast.

We also submit that any introduction of satellite radio services contain very strict parameters on Australian content as well as content emanating from those markets that they broadcast to, and that all satellite radio operators be subject to the same policy regime as that regime that already radio broadcasters need adhere to.

The second issue, the Public Interest and Objectives of Broadcasting Policy. Specifically, the question asked in the issues paper, "Does the current policy framework support access to adequate broadcasting services throughout Australia including regional and remote areas?" Sport 927 and now affiliate Racing Radio broadcasters around the country believe that the current broadcasting policy framework does not support access to certain regional and remote areas and as a result discriminates against listeners within those areas. Racing Radio, which are very popular services, are denied to a very large number of regional listeners, both in part due to the ABA's lack of planning resources and an appropriate licensing regime.

For example, Sport 927 operates both as a Melbourne and metropolitan broadcaster, commercial, and as a regional relay service and licence holder. We retransmit our programs into a number of regional areas, 13 in total. We are forced to either purchase or lease commercial licences or bid at auction, ABA auction, for open narrowcast licences. In the case of open narrowcast licences, they are by definition limited in their tenure, usually five years. Recently we have paid upwards of \$70,000 for an open narrowcast licence with there being no guarantee of any permanency whatsoever even though in some cases we have had to invest very heavily in the transmission infrastructure within those licence areas.

We submit that a licence regime be established to enable services such as Racing Radio and other appropriate formats to operate one licence with the ability to transmit into certain regional areas in much the same way as the Triple J network operates around the country. One licence simply retransmitted, not as is currently the case - certainly with our radio station and our affiliate Racing Radio stations - one metropolitan licence with a number of open narrowcast licences and supplementary agreements with commercial licence holders. We also submit that the ABA be equipped with adequate resources to finalise LAP's, or licence area planning, at the earliest, the time-frame of which, the commission may be aware, appears to be getting strung out in favour of specifically digital television planning.

The third issue and one that we are very interested in is, Australia's Current Broadcasting Regulation. The minister, Senator Richard Alston, has announced the introduction of digital radio broadcasting, or DRB. What is digital radio broadcasting? Without having the ability to demonstrate DRB - it's a very abstract thing and a lot of people have difficulty understanding exactly what it is - so we've brought along today the only demonstration that I know of in the country, something that I picked up in Canada late last year, which hopefully will give the commission a brief introduction of what it is and what it's technically capable of delivering. I'm just advised that there is a delay in the demonstration. I might pass on to my colleague and come back to digital radio, if I may.

MR McCRAE: Thanks very much. We will just move to the fourth issue which is the Role of the Australian Broadcasting Authority. The Broadcasting Services Act establishes the ABA as the principal body responsible for the administration of broadcasting and the planning of the frequency bands that are primarily used for broadcasting have been delegated by the Australian Communications Authority to the ABA. But unfortunately, from our point of view, the ACA has entered into the area of broadcasting by issuing licences for broadcasting services using frequency bands that the ACA has not delegated to the ABA. These bands are, for example, from 1602 to 1705 kilohertz, which is adjacent to the AM broadcasting band, and they also have services on 151 and 81 megahertz as well.

So what we have in fact is the operation of two different sets of planning regimes and ownership and control provisions by the two bodies which has led to interference problems and anti-competitive situations. With my car radio at the moment I can tune to a station on 1593 on the broadcast band, on the AM band, and it's a station licensed and regulated by the ABA; move a little bit further along the dial to 1620 and I'll hear GB Radio which is a station licensed by the ACA. It's quite immune from the provisions of the Broadcasting Services Act but it's been licensed by the ACA, calling it a narrow area service but it's a full-on broadcasting station. It's rebroadcasting a Scottish FM music station, as a matter of fact. So those things we feel are not quite right. So the operation of two different sets of planning regimes and ownership and control provisions creates a problem.

We're also concerned that the so-called L band, which is to be used for digital radio - and you'll see a demonstration of that in just a moment - this band also is under the control of the ACA, not the ABA. So we believe that the administration and planning of all broadcasting should be under one body, which is the Australian Broadcasting Authority. I think perhaps now we might be ready to - - -

MR CROWE: No, I don't think we are.

MR McCRAE: We're not quite ready.

PROF SNAPE: Perhaps I ask a question. When you said all broadcasting services, does that include military?

MR McCRAE: No, well, the military isn't broadcasting actually. I'm only talking about free-to-air services to the general public. That's classified as broadcasting, but by military you meant military communications perhaps?

PROF SNAPE: Yes.

MR McCRAE: That's radio communications as distinct from broadcasting.

PROF SNAPE: Okay. I'm just picking up the last sentence that you have there in your presentation then. By "broadcasting" there, you are including narrowcasting in that - - -

MR McCRAE: Narrow, yes. That comes under the Broadcasting Services Act, of course.

PROF SNAPE: Yes.

MR McCRAE: There are four types of services. There's of course national broadcasting which doesn't require a licence, commercial, community, and narrowcasting.

PROF SNAPE: Yes, but when you say all the broadcasting services and their use of spectrum should be under the one government body, the ABA, so it's all the things that are included within the Broadcasting Services Act. But then this station that you were referring to, which is just on the edge of it and which is under the ACA, you were describing that as a broadcasting station - - -

MR McCRAE: Yes, I would, because it's broadcasting to the general public. It can be also received on a standard domestic receiver and it has advertisements and everything else. So I've got no objection to it being on the air but I just feel that it ought to be licensed and controlled exactly the same as other stations that are on the dial beside it.

PROF SNAPE: Yes. We have had a submission from one group that broadcasts on that fringe area and argues that they're doing a very great service. They're actually frightened that they're going to fall through the cracks at the time of the conversion to digital, and so they have another type of concern. I think they want to be brought into the fold - - -

MR McCRAE: Yes.

PROF SNAPE: - - - but they're worried they're going to drop off the edge.

MR McCRAE: Yes, it has been said to me by a person in the ACA that although the Broadcasting Services Act uses frequencies delegated to it by the ACA, that's not to say that the ACA can't provide broadcasting services for frequencies other than

those that have been delegated to the ABA. Now, that's to me stretching it a bit but I'm simply saying that if it's broadcasting it ought to be controlled by the Broadcasting Services Act.

PROF SNAPE: Okay.

MR SIMSON: Could you just talk a little bit about on page 6, this issue of the relaying of program content. I think I can follow what you're trying to achieve there because it would mean that you'd be able to relay the content without actually having to have a licence.

MR CROWE: Correct.

MR SIMSON: In each geographical location.

MR CROWE: In each of the locations.

MR SIMSON: Isn't that so at the moment?

MR CROWE: No, it's not. When we want to broadcast outside of the Melbourne metropolitan area we're forced to either purchase open narrowcast licences or lease licences. So we operate - I think we own - 11 different licences.

MR SIMSON: But there's nothing to stop other stations purchasing your content.

MR CROWE: No, but it's not commercially viable for them, given that we are such a narrowcast or unique limited-appeal format.

MR SIMSON: Okay. Do you carry any more general news information?

MR CROWE: Yes, what it is that listener's hear on our station in Melbourne is heard in each of those regional areas. It's a direct 24 hour a day, seven day a week rebroadcaster.

PROF SNAPE: You're probably aware we had a submission from Racing Radio.

MR CROWE: Yes, we are.

PROF SNAPE: They came to us in Brisbane. What is your relationship to the rest of that Racing Radio group?

MR CROWE: We are an affiliate member of that association that meets and talks quite regularly because we have common formatting, and whilst we don't have common ownership, we pretty much have a broad obligation to broadcast all race meetings and supplementary information that are provided for and operated on by the state TAB agencies.

PROF SNAPE: Yes.

MR CROWE: But we don't always share the same philosophical beliefs and strategies.

MR SIMSON: I'm interested about what you've had to say about the digital side, and you're going to show us something in a minute on this. From the perspective of your particular content genre, what does this offer you? I mean, I'm thinking, for example, of being able to pull down your betting results or even have a bet on your digital receiver.

MR CROWE: That's correct.

MR SIMSON: So that from a gaming perspective, your particular area of content interests, as it is at the moment, would lend itself to - - -

MR CROWE: Very much so.

MR SIMSON: - - - extensions into those sort of digital applications.

MR CROWE: Very much so. In terms of the datacasting or data streaming on the actual screen on the receiver, we could, for example, import and rebroadcast over those receivers, TAB odds, race caller tips, scratching information and that sort of information, information on the horses - - -

MR SIMSON: And betting.

MR CROWE: Well, that's not a facility at this stage but we expect it to become an option within the relatively short-term.

PROF SNAPE: So it would effectively become TAB on the air?

MR CROWE: A mini agency perhaps or much the same way as a telephone allows you to be an operator remote from each of those retail outlets and the course.

MR SIMSON: But of course you'll be able to do that even in the absence of digital receivers, won't you, because there's nothing to stop you building complimentary multimedia or interactive services delivered by other means of carriage and accessed differently to a digital radio receiver which may be some time off.

MR CROWE: That's correct.

MR SIMSON: Are you actually doing that at the moment or where is your thinking up to in terms of this next step?

MR McCRAE: Well, our next step is to consider having an experimental DAB transmitter operating in the city here to give us some experience in both the transmission of audio and data and also to have a look at channel splitting. Inevitably two races come at the same time. It might allow us to have both races up so a person can choose what they wanted and that will solve a lot of heartbreak for some people and we would also be able to demonstrate the value of radio. As Noel just said a moment ago, it's a situation at the moment that unless you've got something which you're about to see in a moment, how do you describe it? It's very difficult. So the best way is to actually have a test transmitter going with some experimental services which is happening at the moment in Sydney as a matter of fact.

MR SIMSON: You're doing it in Sydney, are you?

MR McCRAE: Not we ourselves but 2KY, which is the racing station for Sydney and New South Wales, they're on the air at the present time with an experimental transmitter and they're broadcasting their normal service on that transmitter. So we would like to do a similar thing here and play around with the transmission of data, you know, tote dividends and that sort of thing as well.

MR CROWE: And given that the minister has announced that from 1 January 2001 to be the date of introduction of DRB, we're somewhat concerned and disappointed that our other broadcast colleagues aren't showing terribly much interest in digital radio - not in a transparent sense - and it's disappointing also that some of the FM operators have gone on record previously as stating they don't want this because what is proposed is that there be one system implemented that enables all of the consumer benefits that we will demonstrate in a moment and that will - once the cessation of analog services, both AM and FM happens, at some stage in the future - eliminate a very significant competitive advantage that FMers have over AMers so the FMers, to our knowledge, have been lobbying pretty hard to ensure that DRB, through this particular platform that is universal around Europe and particularly in Canada, is stalled.

MR SIMSON: Is that advantage in the audio quality - sorry, over FM.

MR CROWE: Well, there are two systems. There's an IBOC system, which is an inband on channel system, which has been developed in the States and the proposition with that, which I must add has not yet been tested and it keeps failing and doesn't live up to its level of expectation - what would operate digital radio on the utilising IBOC would have FM digital and AM digital. FM digital, if I could draw an analogy, would be almost CD-like quality audio; and AM digital would be almost like FM quality audio. So that's - - -

MR SIMSON: So they're both enhanced a bit?

MR CROWE: Yes, that's right - well, FM particularly. But what it doesn't do is provide the raft of consumer options that we'll have a look at in a moment and doesn't enable there to be a level playing field in terms of the huge disparity that exists now

between AM and FM. This, if I may say, is a crude demonstration but the only means we can demonstrate it in the absence of us operating in a market where digital is playing. So if we look at this station, for example, whilst you're actually driving along listening at home, listening to the format and you wanted to know, particularly in a driving situation, what the traffic was doing in the metro area, you can actually link in with RTA or global positioning systems give you an indication of the traffic hot spots and the most beneficial routes to get home from where you are. If, for example, you wanted to know what entertainment options were available in terms of movies, for example, and you wanted a synopsis of a particular movie - - -

MR SIMSON: This is all while you're driving?

MR CROWE: Not whilst you're driving. There are certain restrictions, obviously, in terms of what's available on screen. Certainly in home units and Walkmans and so forth this will be available. If it were to be that you lived in that particular area, it will tell you where the theatre is, the best route to get there and eventually you will be able to buy your tickets and reserve whatever seats you want much like you can on the Internet, through your digital radio. If, for example, a talk station - I guess we could look at 3AW in this market. Whilst you've got Neil Mitchell on in the morning, for example, and you'll see that Neil, as a lot of people tend to become, and want to know what is happening at the Australian Open Tennis, for example, you could actually go across to their supplementary channel to get line descriptions potentially of that sporting activity that's happening, whilst also being able to look up the latest scores from anywhere around the world really.

MR SIMSON: This sort of stuff is already available over your mobile phone on the Internet, through a number of the mobile telephony providers.

MR CROWE: Yes.

MR SIMSON: How would a service like this be different to what I can currently get over my mobile phone in a text-based formula?

MR CROWE: I think more sophisticated, and I'll defer to our technical director but certainly format specific. So if it were to be that you wanted to listen to - you're a fan of 3AW or a fan of racing or a fan of sports, you will have something that is specific with program associated data or PAD delivered to support the core format of that radio station.

MR SIMSON: And importantly, what you're saying is pointing to the same receiver that you're operating from?

MR CROWE: Yes, that's correct.

MR McCRAE: That's correct, yes, that's right.

MR SIMSON: But you'll be able to, with digital of course the type of receiver

could be a multipurpose receiver. It could be something that you can do - an adaption of your mobile phone, for example, that could also operate radio functionality?

MR McCRAE: It's highly possible that in cars in the future the car radio will be something like this and it will be integrated with a mobile phone and it might also have fax capabilities and a whole range of things. It's all a question of money, I think - how much people are prepared to spend. But I think like we were pointing out here before, what this amounts to is your conventional radio station being able to give you high quality music or speech or whatever. It can also give you the opportunity of data, text, graphics and so on associated with those programs or even unrelated data and in our particular case it would be possible to reduce the quality of the audio a little bit but thereby gain the use of a second channel so we could have two race descriptions at once. We could also perhaps show photo finishes of a race, that kind of thing as well. So because of the fact that it's a digital transmission system, it doesn't matter much to the transmission system itself as to whether it's sound, data, text, video, or slow scape video or graphics as the case may be.

MR SIMSON: As the legislation currently - or as the policy stands, it's meant to start from 2001. There's no way in the world we're going to achieve that, is there, in terms of the planning that has been done for this?

MR McCRAE: There's a lot of planning that has been done for Melbourne and Sydney in terms of band plans and that type of thing. The whole program I think has been overshadowed by digital TV. When people talk about digital broadcasting they think it means exclusively television.

MR SIMSON: I was referring to the radio - in 2001.

MR McCRAE: Yes, but radio planning work is going on steadily behind the scenes. It's just not publicised so much. But it's a bit of a chicken and egg situation. Do you have receivers before you have the stations or the stations before you have the receivers? There's a bit of a holding back situation and that's partly why we think we ought to play our part by having an experimental service running because that will stimulate receiver manufacturers to get into the business and provide the receivers which in term will stimulate the broadcasters. It's a chicken and egg thing.

MR SIMSON: These receivers - I think we found, we were told on one of our industry visits - are going to be several hundred dollars.

MR McCRAE: The very first few, about two years ago, were \$10,000 each but more recently figures of one to three thousand are quoted but it's all a case of mass production, quantity, of course, plus if you put every possible feature that digital radio broadcasting is capable of, you would have a very expensive receiver. So the market has got to decide what mix of essential features it wants for a particular market or a particular type of radio and that in turn, once they've sifted that out, they will come down to a much simpler and cheaper receiver.

MR CROWE: And it's interesting, the BBC now, with digital - their digital platform I think reaches about 70 per cent of the population of the UK and they're predicting, and other companies in the UK, that the rates of take-up of the new technology, when you look at their five-year plans, you've got exponential growth year on year and it's only a matter of people being able to have a look at it, see what it's capable of doing, and that will certainly drive interest and drive the cost down.

PROF SNAPE: They're covering 70 per cent of the UK.

MR CROWE: Correct.

PROF SNAPE: In terms of people able to receive it?

MR CROWE: That's correct.

PROF SNAPE: What percentage are actually receiving?

MR CROWE: That I don't know but the infrastructure is there for 70 per cent but in terms of how many people are actually trialing it at this stage, I couldn't say.

MR McCRAE: It's probably quite low at the present time, to be honest.

PROF SNAPE: The cost of sets that you were just - - -

MR McCRAE: The cost of sets, people's awareness of it and that sort of thing. You know, it's - - -

MR CROWE: It's only been on air now for - - -

MR McCRAE: Only a few years. The BBC were the first in the world to start a regular service and that was about September 1995 as I recall and the other countries of Europe and around Scandinavia and so on have taken it up with some enthusiasm in recent years but I suppose it has been held back by the price of receivers which is in turn due to the small production runs which in turn is due to a lack of interest in these early days.

PROF SNAPE: Any car manufacturers incorporating them into their cars?

MR McCRAE: Yes, BMW, as I recall.

MR CROWE: Yes, they are, Mercedes Benz. It is predicted that within five to seven years, every car off every assembly line will have a GPS system and screen within and that will migrate the next stage of that, that the screen won't be solely for GPS but for digital radio. But my view is, having spoken to a lot of people about it and done a lot of work in this country and around the world, that a lot of the low levels of awareness is due principally to the FM brigade who really have a very

competitive advantage at the moment in terms of quality and in terms of market share of revenues and market share of ratings etcetera. There is, I guess, a self interest not to promote this new technology.

MR SIMSON: They would be no worse off, would they, because they would be able to use the technology. It just means that their competitors would be better off in terms of the - - -

MR CROWE: That's correct.

MR SIMSON: Mr Crowe, talk to us a little bit for a moment about Internet radio. I saw a story last week where America On Line has just purchased spinner.com, an Internet radio station, which means that AOL is now going to have access to more than 100 channels of music. Could you just give us an update from your perspective as to how quickly the use of radio on the Internet is going to become in Australia?

MR CROWE: I'm not sure what figures have been done in this country but there have been overseas surveys and the majority of younger people, granted, but Internet users do prefer to have some audio in the background and it's interesting now you can actually listen to a radio station - every country in the world, there are literally thousands of radio stations providing audio streaming on the Net and from a radio operator's perspective, if they were operating in any other format other than racing, I would be quite concerned about it; quite concerned from the social impact because if you've got people - overseas formats that have no regard for the promotion and protection of Australian talent, no regard for the social parameters and the acceptable standards within this country, beaming in what could well be unacceptable program material to the detriment of both locally produced and locally broadcast and the local - the indigenous - standards of ethics.

MR SIMSON: Putting to one side the racing format which is particular or specific, what would be your hunch as to the penetration or the use that Internet radio is going to have in this country for those people who are sitting at home as opposed to driving a car where it's going to take much longer for the Internet to be used as a delivery vehicle of radio? I mean, how significant is the Internet threat, if you like, on pay television?

MR CROWE: I think very significant. I can't quantify that, but my gut feel after many years' experience, would be that it is and is becoming - sorry, not is, but is becoming, particularly with younger people, the hip thing to do, to listen to American - to listen to, you know, the different rap stations and what have you.

MR SIMSON: It's all the choice, isn't it.

MR CROWE: Absolutely. It's the hip thing to do and it's the further homogenisation of youth, I guess, adding to that.

MR McCRAE: Can I just a word relevant to that. The only two points you need to

also consider though, however, is that getting on the Internet is not free of course - it costs you - whereas you can go down the road and buy a \$30 radio and that's the total cost. The other point is, would the Internet type of service be relevant for a portable receiver - portable radios working and that sort of thing.

PROF SNAPE: Portability is a big feature but then I wonder, if you are jogging, you probably don't need the features that you've got up there, do you, when you get lost.

MR McCRAE: Well, you mightn't need 140 channels either.

MR SIMSON: A number of people appearing before us have had something to say about this but could you give us your view on the planning issues with the ABA? A lot of people have been complaining about the delays in processing and so on.

MR McCRAE: Yes, I'd like to say a word about - insofar as the ABA came into existence about October 1992 and at that time we expressed interest in achieving licences to provide a statewide race broadcasting service. Here we are six and a half years later and we're still waiting to see licence area plans coming out for the western district and also Gippsland, because those are the two major areas where you're getting lots of complaints that they can't hear us. We would like to put services there but we can't.

I don't entirely blame the ABA themselves. They have always been short of people. Also, the procedures they're required under the act to go through means lots and lots of public consultation and this, that and the other, and so it's a very slow process. For example, a year ago they sought some public input on a draft plan for Melbourne and we still haven't heard the outcome of that. So a year has gone past and there has been no sign of anything there. The same story applies in other particular markets. The way things are going we'll have digital radio on top of us, which will change the whole story, before they've even finished the analog program.

PROF SNAPE: From your perspective is there something that they can do to hurry this whole thing up?

MR McCRAE: Well, I think the government needs to recognise it should provide the resources for the ABA to do the job that it's charged with doing in a shorter span of time.

PROF SNAPE: You don't see that there would be - I mean, from your perspective, just looking in from the outside, you can't see that they are being too cautious or not contracting out or whatever else might be done to speed the process up?

MR McCRAE: Well, they're fairly cautious, but on those few occasions when they haven't been they have found themselves in the Federal Court being challenged on something. So I can understand that point of view. The other problem is that the number of people experienced in frequency management in this country are few and

far between. In fact the ABA I think are tending to lose people more than they're gaining and training them. It's quite a sophisticated operation. It looks simple to outsiders with no experience of it but planning services to get maximum spectrum productivity is quite a difficult situation to cope with. They're bound to go area by area, licence area plan by licence area plan. Perhaps there is something they could do to streamline it and speed it up a little but - - -

PROF SNAPE: But you can't really perceive it from where you're standing. There's nothing glaring, as far as your - - -

MR McCRAE: No, there's no glaring problem. They're partly constrained by the act. For example I think, as we have explained in our submission, the fact that we, being a state-based service, can't provide a statewide service because the act doesn't allow the ABA to let us do that seems strange. I think the ABA spends probably too much planning effort on narrowcasting when the narrowcasting concept - which has that limited tenure thing which we have seen is irrelevant to what the narrowcasting concept was all about - seems to bog them down at times.

MR SIMSON: What are the decisions that the government still has to make to get digital radio broadcasting up and running?

MR CROWE: The planning and steering committee needs to report to the minister, which I believe is immanent, after which the minister is expected to announce late this year the delivery platform and reconfirm the timetable. We see it as appropriate that - and we're having input into the digital planning and steering committee as well as direct to the minister and the other appropriate bodies that there be three timetables announced, (1) that the 2001 timetable be reconfirmed, (2) that there is a date within which all broadcasters either commit to digital radio - digital broadcasting within a reasonable time-frame or forego that allocation of kilobits they would be automatically entitled to under the minister's initial draft policy and (3) that there be a timetable announced for the cessation of analog services.

We believe that in the absence of any of those time-frames there will be a very slow trickle of interest whereby adherence or the outlining of those three time-frames there needs to be commitment and a larger degree of enthusiasm demonstrated by all sectors of the commercial broadcasting industry, AM and FM. We see that in the absence of those three fixed time-frames, albeit reasonable time-frames, that this new technology that personally I think that radio is dependent upon for its long-term commercial viability, they most certainly need time-frames. Universally the industry doesn't agree with that but I most certainly do.

PROF SNAPE: Good.

MR SIMSON: Thank you.

PROF SNAPE: Thank you very much. That's been very helpful and we're glad we got the technology working eventually. We accept that we're responsible for the

problems there, we apologise. Thank you very much.

MR CROWE: Thanks for the opportunity.

PROF SNAPE: I think we can go now to Whitehorse Boorondara whom we missed before.

PROF SNAPE: Our apologies for getting you out of sequence, which was entirely my fault.

MR HALEY: No, not at all. In fact, I was very glad to hear 3UZ's comments.

PROF SNAPE: We welcome Whitehorse Boorondara Community Radio, for whom we have two submissions, number 3 and 94. I would ask you to identify yourself and then if you would speak to your submission please.

MR HALEY: Yes. My name is Gary Haley and I'm from Whitehorse Boorondara 94.1 FM and we go under the name of community information radio. Our address is 7 Greenwood Street, Bennetswood, adjacent to Box Hill.

PROF SNAPE: Good. Well, Mr Haley, would you like to speak briefly to your - - -

MR HALEY: Yes, Mr Chairman. I would just like the ABA to take into consideration that there should be a very strong demarcation line between the difference in community radio broadcast and community information radio because one can pick up the dollars, the other can't. Now, in the case of 94.1, the age of the listening audience that we have, 60 per cent of them are over the age of 60 and we were, for want of a better word, pushed into a type of broadcast revolving mainly around community information on welfare support groups. Now, each week we get in the order of 50 to 120 A4 size fliers from different organisations right throughout the City of Whitehorse and Boorondara begging for help, for volunteers, money, services, goods, and also different groups come along to speak on air to tell people and it's - unfortunately for us - it's always directed at the elderly.

As much as we'd like to go, what would you say, razzamatazz, to raise the dollars we don't have the youth out there as yet and as to when we will have a young listening audience, say under the age of 45, there's no indication. The other aspect was the fact that a lot of the temporary broadcast licences I would like to see a more positive attitude in defining their assets, their capability and their credibility to hold such a licence. Also I'd like to see each and every licence or any type of licence come under one roof. Whether it be the knobs on the transmitter to the nuts and bolts in the antenna, I'd like to see it all under one roof.

The other aspect was when the productivity reference stated that the CBAA is a representative body of all aspirant community radio stations in Australia - well, I've got no hesitation in saying that Victoria, as some other states, are very poor cousins. In other words, we hear about it but we don't get anything out of it. The Community Broadcast Funding Inc, we put a question mark on that because if there's credibility and quality within the group that's running the - whether it be a community station or a temporary broadcast licence - is the Broadcast Funding Corporation really needed to fund radio stations.

But in respect to digital I've got no hesitation in saying that the FMers do not want digital, it's too expensive, but the big problem is there is no-one to service it. In

Victoria, with the experiences I had with various transmitters, they're very keen to sell you a transmitter but they cannot give you any after sales service. In one case, one transmitter had to go back to Italy to be serviced under warrantee but it took four years to do it - four years. With community broadcast a lot of them have the problem of X amount of dollars to X equipment that the ABA want in digital broadcast is just not there.

PROF SNAPE: Good.

MR HALEY: Now, if I can answer any questions, I'd be happy to.

MR SIMSON: Could I just ask, with regard to your - what's your problem with not being able to get a younger audience? It's because you can't promote yourself?

MR HALEY: No, it's because - - -

MR SIMSON: You can't raise the money to promote yourself?

MR HALEY: No, it's because of the area that we are in. Our broadcast range is not to an area where we've got young people.

MR SIMSON: As you're out in Boorondara.

MR HALEY: Yes. Our listening audience, 60 per cent of the population are over the age of 60.

PROF SNAPE: Whitehorse Boorondara, that includes out to Vermont area these days, doesn't it?

MR HALEY: Not quite to Vermont. Our charter is to Middleborough Road which is only a couple of kilometres from us but we go mostly down into Whitehorse, Box Hill South, Box Hill North, down into Camberwell, Hawthorn, which is Boorondara now. But the big problem is there I've never known a state to be so broke as what Victoria is by all the letters we do get, "Would you please publicise, we need volunteers, we need money, we need clothes, we need this."

MR SIMSON: But isn't that exactly why you got your licence, because that's your community, that's the needs of that community.

MR HALEY: Yes, that's what I say.

MR SIMSON: That's the need of your community. What's the difficulty if that community is relatively older as a demographic and that's their needs, aren't you doing your job?

MR HALEY: Yes, we are but welfare does not create money, it consumes it.

Whatever you invest in welfare you'll never get a dividend on it.

MR SIMSON: You're not talking about this as a radio operator, you're talking about this as a general point of philosophy?

MR HALEY: As a radio operator as well because our signal goes to those who are desperately in need of council services, human services and what they offer. We do get an average of five to six people on air, interviewing them, as to what their organisation offers the public generally and unfortunately it's directed to people in the pensioner stage. But it would be five, six, maybe 10 years before we start to get a young audience coming up because the cost of housing there is pushing younger people further out to Bayswater, right out the other side of Mount Dandenong. But it was something that we didn't intend to go that way but we found our audience start to come to us for assistance to, "Will you help us promote this? Will you help do this?"

MR SIMSON: How many hours a day do you go on the air?

MR HALEY: On a weekday, Monday to Friday, we're on 8 am in the morning, till 6 pm. After that Swinburne takes over. On Saturday and Sunday we're on 8 am in the morning to 12 midnight.

PROF SNAPE: Swinburne is on the same frequency?

MR HALEY: Yes, 94.1.

MR SIMSON: So you share?

PROF SNAPE: With the same area?

MR HALEY: With the same area. Swinburne broadcasts from the Swinburne TAFE college, down opposite the Hawthorn Town Hall, and we broadcast from Greenwood Street, Bennetswood.

MR SIMSON: What sort of content does Swinburne broadcast?

MR HALEY: Rap and ragged.

MR SIMSON: So they do the young bit?

MR HALEY: They do the very heavy, the young bit. They have the students come in and it's - look, with all due respect, not my type of broadcast.

PROF SNAPE: Probably not mine either but there seems to be a demand for it nevertheless.

MR HALEY: There is.

PROF SNAPE: The amount of community service announcement which you put across, do you get funding from anyone to do those community service - - -

MR HALEY: No. We've applied for various grants and that but because we're TBL there's a big question mark on us.

MR SIMSON: What's TBL?

MR HALEY: Temporary broadcast licence. The thing is the council offered us premises at one stage and when they discovered we were temporary broadcast licence they said, "God no, we could go to a bit of trouble to help you set up - not set you up - help you set up and next thing we know you haven't got a licence." This is where I would like to see the ABA come under one roof for everything. In other words, you're not running to different departments, you don't have to go to somewhere else. At the moment we're between Canberra and Sydney to get any information and I've got to admit, as our friend said from 3UZ, it's slow.

MR SIMSON: How do you fund yourself?

MR HALEY: We charge a membership fee per year to become a member of 94.1.

MR SIMSON: This is the fees at the back of the submission? You charge that to whom? To the listeners or the people - - -

MR HALEY: To the presenters and supportive members. We do campaign heavily for supportive members. Where we ran into trouble with the sponsorship was the fact that they were looking for a bit of a go-go, with-it station. "We don't want to hear about welfare, we don't want to hear about misery," and I said, "You're not hearing about misery. There could be a case of when you need some of the services that council provide." Now you've got the aspect of councils want to be seen to be providing a service but because of their stance on dollars and cents they don't really want to spend it.

PROF SNAPE: So you can have four minutes an hour sponsorship at the moment?

MR HALEY: Yes.

PROF SNAPE: You don't find that the superannuation funds or the nursing home providers - - -

MR HALEY: They want it for free. We've got the Villa Maria and all that sort of thing but we do it for them for free. They send down a guest speaker and they tell about what it is, the service provided, where you can apply, information how to get in or get out. But it is strictly you get to an age where you suddenly find your dollars and cents, your disposable dollar is gone and you've paid your dues, you've paid your tax so they turn around for a source of information and we unfortunately - we didn't

want to step into it, we fell in it.

PROF SNAPE: Good. I think that that gives us a very clear indication, together with your very full submissions, on - - -

MR HALEY: I hope so because I visited a lot of the other aspirant stations and they're all in the same boat.

PROF SNAPE: Yes, we understand. We've heard that the aspirants do have a real problem.

MR HALEY: A major problem.

PROF SNAPE: The ABA has acknowledged that that is a problem but as 3UZ was saying, that the ABA is short-staffed and they - - -

MR HALEY: Very short-staffed.

PROF SNAPE: While they would like to speed it up they find a difficulty in doing so.

MR HALEY: One last thing with our friends, 3UZ, I agree with them in total that there is no servicemen who can really adequately deal with transmitters over 200 watt and there is virtually no-one who can pay an after-sales service on any of their equipment in Victoria and there is no-one who can come out to a transmitter station, identify the problem and rectify the problem, because a lot of the transmitter suppliers will not supply diagrams with their equipment. Of course, in most cases, with the exception of NEC, which is a ridiculous price for their transmission equipment, they will only service their own. But what has happened, at the moment there is a Chinese 300 watt, fully balanced, stereo accelerator limiter for 4300 on the market and the same transmitter only at 150 made in Australia at Northcote is 8500 plus tax. Anyway, Mr Chairman, thank you very much.

MR SIMSON: Thank you.

PROF SNAPE: Very good. Thank you very much.

MR THOMPSON: I'm very sorry to have kept everybody waiting.

PROF SNAPE: No, it's fitted in quite well as a matter of fact. So we now resume and welcome DMG Radio Australia Partnership, with one representative to speak, is it?

MR THOMPSON: That's right.

PROF SNAPE: I invite you to identify yourself for the tape, please.

MR THOMPSON: Paul Thompson, chief executive of DMG Radio Australia.

PROF SNAPE: Mr Thompson, if you'd now like to speak to your submission which we've had for a little while and have read, thank you.

MR THOMPSON: DMG Radio Australia and its parent company Daily Mail and General Trust PLC are clearly identified I think in our submission and I don't propose to expand on or repeat that information. Also DMG's current position in the Australian radio industry and our future objectives have been clearly stated I think in the submission. So if its convenient for the commission I will briefly expand DMG's views on a small number of issues which we regard as important. I would then be happy to answer any questions which might make our position clearer or on any other issues the commission may wish to raise.

The first point is the ABA planning process and the need for additional FM licences in metropolitan areas as we see it. In terms of looking at the need for additional licences there are two critical considerations which I think are universal. One is the need for services, and I won't speak to that at the moment. The second is the capacity of the community to support licences financially. At the heart of determining the latter is the issue of revenue per station. It's a financial relationship and needs to drive, in practical terms, the allocation of commercial licences, and in that sense I suppose it differs from other forms of licences.

To illustrate a point in relation to that I would like to give you some examples of revenue per station comparisons of regional markets that we're involved with, in which DMG is involved and existing revenue per station situations as they apply currently to capital city markets. Townsville in North Queensland, for example, has \$1.25 million per station revenue. Cairns, which is only slightly less, in North Queensland also, 1.2 million per station. Coffs Harbour in New South Wales is lower than that again, three stations in the market, \$800,000 per station is the revenue to station relationship. So you're going from a range there from the largest market in which we operate in the regions at 1.25 million per station to 800,000 per station in Coffs Harbour.

By comparison Adelaide, the smallest of the capital cities, \$7.5 million per station over five stations; Perth, \$8 million per station over five stations; Melbourne, more than \$11 million per station over nine stations; Brisbane, \$12.5 million per

station over four stations; and Sydney, \$16.5 million per station over nine stations. Comparing with Coffs Harbour, which has just had a licence granted, 800,000 per station to 16.5 million per station, about 20 times the dollars of revenue per station. It's extraordinary to us that in the face of these stark comparisons capital city incumbents continue to argue that they should be protected from further competition by suspending the ABA planning process after it's dealt with regional but not yet addressed metropolitan areas.

There have been frankly many devices used by lobbyists, as there often are I suppose, to seek to circumvent or derail the ABA planning process and prevent it from producing increased competition in major markets. The most recent of these is an unlikely one, it's digital radio, which you no doubt have spoken of somewhat in these hearings. There appears to be an attempt to represent digital radio as being at a far more advanced stage than it actually is and to present it as an alternative to additional analog services. Figures that we've seen from the UK suggest that planners expect digital audience share in year 10 in that country will be about six per cent. Six per cent of the total listening will be to digital programming and by year 12 it will be just over 8 per cent. In other words, meaningful usage of digital radio is at least many years away but it may even take decades, although we're hoping not. This is not a sound argument in our view to delay new FM licences in capital cities.

It's also argued that the radio industry has a great burden of costs associated with the introduction of digital and should be protected from competition as a trade off. The actual costs, I suppose, will depend on who owns the multiplexes which will house the operations, the transmitter operations. There are a number of aspirant service providers who would like to take care of this. There's not necessarily any costs associated with that - or there may well be a rental cost but there's no capital cost necessarily unless people choose to invest in that way. Transmitters represent the main cost but they're expected to be in the hundreds of thousands of dollars range rather than the millions. So this, as we see it, should be no more than a blip in the capital city incumbent's profit graphs and deserves, in our view, no special consideration.

The second issue relates to cross-media rules. DMG is not dogmatic in our views on this and I suppose that the more that I think about it the less dogmatic we become but it is true that the smaller the market and the fewer the services the less attractive and relaxation of cross-media rules becomes. Markets in which we are involved which don't have the traditional three TV services and daily local news services include places like Mount Gambier, Griffith, Mildura, Mount Isa and Charters Towers. In those environments, some of which have one TV and some have two and none of them have daily newspapers, in those environments cross-media law relaxation will mean a very small number of media voices but in larger markets the effect obviously will be less severe I imagine.

From a specific radio point of view multi media ownership tends to result in frankly in radio falling quite low in the food chain. That is, the radio station can end up stuck in the basement of a newspaper or television building picking up crumbs, as

happened in the old Herald and Weekly Times days. I was in the basement picking up crumbs at that time. I remember it well.

MR SIMSON: I was there for a while too.

MR THOMPSON: In the big picture maybe that doesn't matter but for someone who actually cares about radio you can't help but care about it a little. The third point I'd like to touch on is foreign ownership of commercial radio. The law was specifically changed in 1992 to allow foreign ownership of radio. DMG invested in Australia in 1996 as a result of this and we see no reason why that has not been a good thing. I've read in newspaper reports of earlier sittings of this commission that Rural Press has urged that foreign ownership restrictions be reintroduced to radio and that by clear inference, at the very least, DMG should divest its current holdings. I think it is appropriate to note now that in 1997 Rural Press sold DMG all of its radio holdings. That's how we got a lot of the properties that we now own. The application of the principal espoused by Rural Press last week seems a little inconsistent if they choose to sell the stations to us in 1997 but it's wrong for us to own them in 1999.

The other matters that DMG wishes to bring forward have been expressed I think reasonably comprehensively in our submission and I'd like to leave it at that if I could but I'd obviously be very happy to respond to any questions that the commission might have.

PROF SNAPE: Thank you very much, Mr Thompson. I noticed that you say that the two to a market rule should be retained, it must not be lifted, to do so would be disastrous. You speak about variety in that context. Could there be a counterargument to say that if I own three radio stations, for example, that I will then start picking off different segments of the market for each of those three radio stations, whereas if all the radio stations are offered by different people that they would in fact all be trying to target the one central part of the market, that in fact common ownership might result in more diversity?

MR THOMPSON: Certainly I've heard that argument. I think firstly it comes down as a point of philosophy, whether one believes that the best way to operate business or media business is to have one single central operation - I mean, why have any variety at all in that case in terms of ownership? Why not simply have one? Maybe the state could operate one single operation, the ABC possibly, and have a vast, diverse range of format options. I mean, that would take that position to the extreme. You'd probably achieve it but you wouldn't achieve very high standards in my view and you wouldn't achieve a very high level of satisfaction for the listener.

Standards in radio - and I'm sure it applies to other things but I can only really speak for radio - high standards in radio are driven by a strongly competitive environment where you have a competitor, you need to serve your audience better than your competitor, you need to research your audience better than they do, you need to conceive a concept from that research better than they do and then you need

to implement better than they do. Competition, certainly in my view and our view, drive you to do that. That's certainly my experience in my career that's now starting to become very long. I have certainly found that the great radio has always come at times when competition levels are high, when they're intense, when there are, if you like, battles. I mean, sometimes they're spoken of as radio wars, where the stations are intensely battling against each other.

My experience is - and they don't always battle by going head to head, but sometimes they do, but what happens from that, when you do have a head-to-head battle, is there's a winner and there's a loser and the winner proceeds down the path of serving the audience that it has been serving and the loser almost invariably seeks another path. Probably the most dramatic example of that is actually quite an old example. It relates here to Melbourne and you may remember it. It goes back to the 70s when there was a contemporary music, rock music battle between the then 3XY and the then 3AK - intense battle. There was a winner and a loser; 3XY won, 3AK lost, and 3AK created the first easy listening station in Australia and pioneered a new direction of radio. It came out of competition, out of a battle, a winner, a loser, a new concept for Melbourne radio.

So I suppose what I believe is that what happens is that everybody doesn't, in fact, concentrate around the one honey pot or if they do, they do it for a short time, until they are unsuccessful and then they go and find another. Frankly, I think it's a widely promoted viewpoint but it's widely promoted, I believe, by people who simply don't want to see competition introduced.

PROF SNAPE: Was Melbourne better served by radio, in terms of quality of radio at the time that you were just referring to, than it is now?

MR THOMPSON: It was certainly well served then I think. It's reasonably well served now. But what has happened since then - the city has got bigger. People's tastes are far less homogenous now than they were then. People were starting to demand that their tastes were taken care of. But in this current era, because of so many other options, they don't have to listen to radio. I mean, I'd like to think it's a very enticing, attractive way for people to spend their time. But there are other options now. I have Foxtel at home. I found myself this morning, when I was up before the paper had arrived, watching the news channel on Foxtel. I very seldom do that. I normally listen to the radio. But there is now an option, and there weren't those options before.

Because those options exist, radio operators have to tailor their programming very much more specifically. People demand that they get what they want, not what they want plus the whole range of other things. So where the range might have been okay in the 70s because people were less demanding in that area, they're much more demanding now and the current range of stations simply doesn't provide the range that they now demand, if radio is going to go forward as a powerful medium in this new media era that we're looking at.

PROF SNAPE: Do fewer people listen to radio now than they did in the 70s - you know, corrected for population change?

MR THOMPSON: Yes, as a percentage it is down a little bit. In total numbers I'm sure it's up, but in terms of percentage it's down slightly - as it is, as I understand, to free-to-air television and so on. There are simply so many more options that I think there will be a slight and slow decline as far as traditional media is concerned. I imagine that applies to newspapers as well. But having said that, I do think traditional media, which is tending to be written off as almost something from the past, has a very long way to go.

PROF SNAPE: It did seem to me at that time that the radio was doing what you were saying, that is that particular audiences were being targeted by each of the radio stations. There was in fact quite a bit of diversity between them all, as one goes through the old radio stations there. I'm not sure that there is such diversity these days amongst the commercial radio stations. Maybe it's just that I'm getting older and not picking up this distinction in the way that perhaps I did in the 70s but it seems to me that there may be clustering much more, in terms of what they provide these days, than they did in the 1970s. If that is a correct perception - it may or may not be correct - it's the first thing to establish I suppose. If it is a correct perception then why would that be?

MR THOMPSON: One reason why it could be - and it's a bit of a subjective judgment. I think it's a little hard to say definitively. But if it is so, my feeling would be that the thing that has changed most since that time is the number of owners. There are now - I think there are six owners in Melbourne. On the FM band, which is the primary music band, there are only two owners.

PROF SNAPE: Apart from the ABC.

MR THOMPSON: Sorry, I'm talking about commercial - yes. At that time I think there were - well, there's no dual ownership, because dual ownership only came in in 1992. So at that time there was an owner for every station. I think the range of owners promoted the competitive aspect of things. I believe the reduced number of owners now is in fact reducing the diversity in that sense.

MR SIMSON: Some of the people who want the three to a market rule argue that the viability of the AM stations is in many cases marginal. They also make the point there are some exceptions, such as 3AW for example. It's just a question of sheer survival for some of these AM stations, to be able to share their overheads and their other costs and get some economies of scale - with clustering with, say, two AM and one FM. Could you comment on that?

MR THOMPSON: We have an AM station in Adelaide that is a talk station and very expensive to run so you know, I have a certain sympathy with that. The difficulty that they have I think is that it is harder for AM stations now than it is for FM. There is a generation of people that listen to FM and don't listen to AM.

MR SIMSON: Exactly. This is the point they make.

MR THOMPSON: And it is getting harder, no question. But I really don't see that as the way to go about - I mean, you could have a complex arrangement where you had three to a market for AM stations but not for FM, but I really would have thought that was - - -

MR SIMSON: Or you could be allowed to have two AM and one FM, as one not insignificant operator is proposing to us.

MR THOMPSON: Yes. I don't know that the reduction in the number of owners is - I think the downside to it creates more problems than the upside. There's nothing stopping an AM operator - except money - from bidding for an FM station in this new regime, with the new licences.

PROF SNAPE: Unless they own already two AM stations.

MR THOMPSON: Unless they own two AM - frankly, the third one is not going to make an enormous difference.

PROF SNAPE: In which case, if they're going for an FM licence and they're successful, until they sell that AM licence they're in reach of the ball. That's what one submission is putting to us: that in fact they should be allowed to bid for an FM licence, even though they're owning two AM, on the expectation that they may get rid of - divest one of those AM ones - if they are successful.

MR THOMPSON: My understanding is that they can bid. We've had this situation ourselves in regional markets. We applied to the ABA for what's called a section 67 licence, got the licence. In fact Coffs Harbour is an example where we now have three licences at the moment. We have a deadline by which we must dispose of one of the licences. We're going to sell one of the AMs. So we will be in that position.

PROF SNAPE: I'm sorry, I got my facts a little bit wrong on that.

MR THOMPSON: No, that's all right.

PROF SNAPE: Is that a continuing arrangement or is that that section 67 that you were mentioning that would continue into the future?

MR THOMPSON: Yes, it's part of the act.

MR SIMSON: Mr Thompson, can I just come back to this point though. If you've got in a metropolitan market - we're talking metropolitan market here - if we've got one owner who may be able to - I know they can't at the moment but let's say they were able to own two AM and one FM, rather than one AM and one FM which is the situation at the moment, as I understand it, where is the problem in terms of

ownership concentration or diversity? I mean, for people to listen to those radio stations they've got to be different, don't they? Isn't the only thing that's going to be derived from that some economies of scale in terms of admin and things? Otherwise you're just cutting you throat, you're basically carrying a licence that nobody would listen to.

MR THOMPSON: I suppose I should be more sympathetic than most to the point of view that you're putting because we, across regional Australia - and Coffs Harbour is a great example, a market of 2.3, 2.4 million dollars, we have three licences and we have to sell one and thus create a competitor. That's an 800 market versus an \$11 million market here in Melbourne where they're saying times are tough and things are difficult. I wonder how they'd like to do the same thing in a - that's \$11 million per station - in an \$800,000 market per station I wonder how they'd get by. The fact is that you can get by. You certainly have to scramble, you certainly struggle but I have to say that because of the fact that we operate in markets that are so much smaller than anything that they're even contemplating, there is so much more revenue for these people in the capital city markets than that we deal with on a day-to-day basis right across Australia in five states that I find it really hard to be sympathetic because - - -

MR SIMSON: I'm asking you be sympathetic and I appreciate that but where does the diversity suffer?

MR THOMPSON: The diversity suffers - it comes down to quality. As I see it, it's a market forces principle. If people, if organisations are competing with other organisations they will perform better, provide a better service than they will if they are not needing to do so to that extent. They can corner a particular format market, for example, by having more than one. In the contemporary music market and in the under 40s side of things one company across Australia has most of that market in every market in Australia because there is nobody challenging.

In Melbourne, as it turns out, there is someone challenging with 3TT but in Sydney they don't have a challenger, in Adelaide they don't have a challenger, in Brisbane they don't have a challenger. So what comes from it is you can get format options. For example, you could corner the talk market. You could have a particular style of talk station with one of your AM stations and another style with another. Now, that's fine, you are providing a degree of diversity. What you're not providing is competition and in my view that won't provide radio that is as good as you will get from a competitive environment.

MR SIMSON: You have 55 commercial stations now. You obviously wish to participate in the next round of FM opportunities in the major capital cities. If you were to pick up, say, an FM station in Sydney and an FM station in Melbourne, would you be the largest operator then in Australia?

MR THOMPSON: I wouldn't have thought so. In terms of numbers of stations we would be and, in fact, in terms of numbers of stations we are already. In terms of

revenue we're a long way off the pace. The two major FMs, Austereo and ARN are a very long way ahead of us and by getting two stations, a station in Sydney and a station in Melbourne, we still wouldn't be at the level that they are at. The revenue base in capital cities is so much different to the revenue base in regional Australia that we'd be possibly third but a pretty distant third.

PROF SNAPE: We have heard comment about lack of localism in the networking and of course I suppose the option is that the station may not be there at all - or an option is. Comment that was - I think it was in relation to DMG but again I stand to be corrected, that as DMG was acquiring more stations throughout the country they were networking and using very little content in the some of the areas in which they were broadcasting. Is that correct?

MR THOMPSON: No, I don't believe so. In the time since we've owned the stations that we've owned the degree of networking hasn't changed to that which we inherited, which is not to say that it won't change in the future but to date the state in which we do the most networking is Western Australia, where we have a number of very small stations but we took those stations over from Rural Press, who had the networking structures in place. We inherited those networking structures, we didn't build them and in the other markets, the other states that we're in, Queensland, New South Wales, Victoria and South Australia, there's been no additional networking beyond what was there when we purchased them. We're certainly looking at what we can do in terms of costs but, as I sit here today, we've added no additional networking.

PROF SNAPE: Right. Some participants have suggested to us that for the diversity, plurality of views objectives that are written into our terms of reference and into the Broadcasting Act, that it would be sufficient to rely upon the ACCC. In some cases this has come in the context of saying, integrate the Telecommunications Act and the Broadcasting Act because these two are to some extent overlapping and with the technological convergence the divisions are not as meaningful as they used to be. So amalgamate those two acts and leave the diversity, etcetera, to the ACCC. Now, that's not to say that there may not be some content requirements put upon it also by legislation one way or another for Australian content and so on. So leave those content aspects on one side for Australian and children's content, and just focusing on the diversity and competition aspects and plurality of views aspects, leave it to the ACCC. Would you like to comment on that?

MR THOMPSON: It's not something that I've got a strong view on, one way or the other. The only point, I suppose, that I would like to make in relation to that is that I get a little bit concerned about legislating for things that are going to happen in the future as opposed to reflecting the situation as it exists now. In some ways, because of investigations and forums such as this one and others that are existing at the moment and general media comment, what I sometimes feel happens is that the situation that exists now, the traditional media performing substantial functions to the great majority of people, is being somewhat overlooked in favour of convergence which we all believe, I think, is going to occur to some degree and in some form that

we find a bit hard to identify. I think it would be a pity to legislate now for an industry that we think is going to be shaped in the future and disregard the industry that we actually have now because the industry that we have now, I think, is going to be here in a substantial form for quite a period of time to come. So the question, I suppose, then in my view, is not, "Would the ACCC be the better governing body, regulatory body, in the future?" but "Is it a better one now and would it have been last year and the year before?" That is, "Would it be better for the industry as it exists now as opposed to the industry as we see the industry possibly becoming in the future?" I haven't actually got - - -

PROF SNAPE: I think the argument is in part, we don't know how the industry is going to develop.

MR THOMPSON: No.

PROF SNAPE: So let's not put historical or technological barriers between various segments of the industry, and having two separate acts - so the argument goes - is part of the technological determinist of even, if you like, erecting technological barriers where - the argument goes - there shouldn't be any, to allow for the possibilities that we don't know where they're going.

MR THOMPSON: I can't see however that there would be any barriers for a newspaper company wanting to move down the path of Internet activities or pay TV, which we can already see, and other computer-generated communication forms. That option is already available to them because those forms of communication aren't covered by the Broadcasting Act. Nothing is stopping television stations from doing the same thing. Nothing stopping radio companies from doing the same thing. All - - -

PROF SNAPE: Except that there is, isn't there? I mean, the ability for radio stations to own television stations is rather circumscribed.

MR THOMPSON: No, I'm sorry, I must have expressed that poorly. I meant, nothing to stop them being involved in Internet activities and other related activities - pay TV. I hoped I didn't mention free-to-air TV. I certainly didn't mean to.

PROF SNAPE: No. No, you didn't.

MR THOMPSON: No, I'm very aware that there's no possibility of doing that. So the only thing that's being stopped at the moment really is newspapers are being stopped from owning free-to-air TV and radio; radio is being stopped from owning TV and newspapers; and TV likewise the other two. So it's only those three traditional media which are covered by the act and I can't see - I mean, I'm arguing stronger than I actually feel here because I actually am not sure that it would worry me so much if the ACCC did become the governing body but it just seems to me that the argument made by a lot of people is really somewhat self-serving, that what they really wish is not so much the opportunity to have a greater degree of freedom in the

new media areas because that freedom is already there but they actually would like to, in the immediate term, have access to traditional media, which they haven't had, in the future.

PROF SNAPE: Yes, but given these emerging technologies - and goodness knows how things are going to fan out amongst it all - it may be that you would be in a stronger position in the context of competition from new technologies and also in the light of what other bigger existing players' options are to get into those new technologies, that you might be in a stronger position with competition if in fact you were able to acquire, say, a television station or a radio station. Now, if the current rules were changed, such as it was the ACCC making a decision on taking a broad view of the market as a whole rather than the segmented one that we've got at the moment, that it may put you in a better position to compete and facilitate competition.

MR THOMPSON: Look, it's not something that I've got a really strong view on, so I shouldn't be arguing it as strongly as I am. I guess I don't really agree with it. I actually think the real motivation and the real advantage is probably the acquisition of traditional media and that everything else can be done around it but I might be wrong. I don't wish to be dogmatic about it because it's not something that we as a company have a really strong view on and our view is stronger in terms of the small regional markets where, if the number of voices shrinks further, you could find yourself down to one or two but this is not an area that we hold a dogmatic view.

PROF SNAPE: Would you carry more news and news commentary if you were owned by or if you owned a newspaper?

MR THOMPSON: I wouldn't have thought so. My view of that, having again lived through an era where there were a lot of newspaper companies who owned radio stations and television stations and worked for companies who owned one of each of those three major media, I guess I'd go back to my point of position on the food chain. I've always found that the radio station performed poorly because the decision-making had to filter down through quite a bureaucratic operating structure. Sometimes the decisions were made on television or newspaper principles for radio and they didn't suit radio, and the end result in my experience - and I know Stan has probably had significant experience in this and might have another view - but my experience would be that it was bad for radio because it was, I suppose, the smallest of them and least powerful of the three media, and the radio stations generally under-performed in the market historically.

And that happened in a range of cities and towns, and the only places they were very successful is where you had a very small town that didn't have much competition or had no competition and if you had a situation there where you had a newspaper and radio station owned by the same company, well, you had a very powerful structure. But in a place like Melbourne, for example, in the last decade or two that those cross-ownerships occurred, the radio stations generally, as I said, under-performed in the market and the independent radio stations that were owned by essentially radio companies did very much better, as a result of which we now find ourselves with

almost none of that cross-ownership.

PROF SNAPE: 3DB was known for its news however.

MR THOMPSON: It was known for its news - it had a reputation for a lot of things that went on a long time after its performance had fallen to a pretty ordinary level. For example, in the 70s it was a decade where it simply wasn't a terribly successful radio station and it started to fall quite a while before that. I don't think it worked, from my observations.

MR SIMSON: Just to shorthand that then - and this is important - you're arguing that really we're talking about different markets here between radio and newspapers, that even in a situation where a newspaper owns a radio station, implicit in what you're saying is, that radio station is going to be more commercially successful if it just goes off and attacks its radio market and the newspaper attacks its newspaper market.

MR THOMPSON: Yes, I believe that's so and that the principles of operating a newspaper are not necessarily the same principles that you need to operate a radio station - - -

MR SIMSON: Okay, okay, that's good. So we're talking fundamentally different markets from a business perspective, from a business approach.

MR THOMPSON: Well, just in case I misunderstand you, I don't say that they don't approach the same clients and try and sell advertising - - -

MR SIMSON: No, could I come back to the advertising one in a minute?

MR THOMPSON: Yes, okay.

MR SIMSON: I'm trying to look at this from an influence, from an audience perspective.

MR THOMPSON: Yes, okay.

MR SIMSON: Now, from an audience perspective, you're saying that they're at least two different business approaches.

MR THOMPSON: Yes, absolutely, yes.

MR SIMSON: Okay. Now, does that then mean that really the capacity for a newspaper owner to carry across their "influence" successfully in a commercial sense is fairly limited, even if they wish to?

MR THOMPSON: Well, they always did wish to. In the previous era where it

happened they did wish to and they did in the sense that the principles of operation, which they visited upon the radio company, were principles that applied far better to - - -

MR SIMSON: I'm talking about editorial influence here.

MR THOMPSON: Editorial.

MR SIMSON: I'm not referring to commercial - I'm not referring to business influence in terms of running you the wrong way because they're trying to run a newspaper. I'm using the word "influence" as it comes from our act and the act that we're looking at.

MR THOMPSON: Okay.

PROF SNAPE:

The degree of influence that different types of broadcasting services are able to exert in shaping community views in Australia which is a foundation stone of the act.

MR SIMSON: Let's shorthand that, a political interference or whatever. I mean, is that something that should be of concern or not?

MR THOMPSON: Look, I don't think that is a particular grave concern. Radio stations that wish to be successful have to respond to their audience and if you have a competitive environment - those things are taken care of by competition in my view. I don't think there would be the kind of political influence that would be a problem. What would be a problem, particularly in the smaller markets, is where you have two major media, or three, owned by a single company, they enter into a cross-promotional pact where each looks after the other and an independent operator trying to compete with them simply can't.

MR SIMSON: Or alternatively, just sticking to the editorial side for a moment, they just recycle the same stories, they have one journalist who's writing for the newspaper, giving a few to the radio station, he may even be standing out in front of a camera I suppose is the ultimate economy of scale.

MR THOMPSON: Yes, that's true. They absolutely can do that but in terms of a board dictating to both a newspaper and a radio station that a particular political line should be developed I think that is unlikely. I don't think that - - -

MR SIMSON: Do you think that's more unlikely today given, I don't know, that life's moved on a bit in terms of that the competition out there from other new media, perhaps that society is a bit more sensitive to that sort of interfering influence. I mean, is that something that perhaps we should have been more concerned about 20 or 30 years ago?

MR THOMPSON: Yes, I think so. I don't think it's a significant factor now. Radio for one and probably - you would know newspapers far better than I but radio for one has to work backwards if it's going to be successful. It has to work backwards from its audience. If its audience has a cultural view of life, even a political view of life, the radio station has to shape itself to at least reasonably reflect those positions. If it tries to impose its view from the management or ownership down the audience will reject it and it will fail.

PROF SNAPE: That includes talkback radio, does it?

MR THOMPSON: It includes talkback radio because generally you - we have one talkback station in Adelaide. My experience there is that the personalities tell you what the position is, the management don't tell the personality which line they're going to run. They're a breed of their own and very strong.

PROF SNAPE: Do they influence public opinion? I'm now trying to - you were saying a moment ago that the stations had to address the public, had to correspond, if you like, to the public opinion or they wouldn't be successful. What about these talkback identities?

MR THOMPSON: The same thing applies. If they are taking a position that is strongly contrary to the fundamental position that the audience has of life, whatever it may be, then generally they will lose the audience and the only ones who stay will be the people who generally share their view of life. Some people, if they're controversial enough and they're entertaining enough, there will be a few people who stay simply to enjoy the contest, if you like, love to hate. But that's the minority. The majority will share the view of the host in general terms or they will leave. They get angry and they simply don't stay provided that you have enough competition in the market.

MR SIMSON: What about at the advertising end? Sorry, Richard, did you want to pursue that point?

PROF SNAPE: The only thing is that if I then am going to be buying a radio station with a degree of selecting a talkback personality to mirror my prejudices and get those across to the community then I will be unsuccessful unless my prejudices happen to match those of the community.

MR THOMPSON: That summarises it perfectly I think.

MR SIMSON: On the advertising front, looking at the city markets as opposed to the regional market, where I understand the point you were making earlier, in the city markets to what extent are radio sales people selling in competition with newspapers? To what extent is there the opportunity for a concentration issue?

MR THOMPSON: Did you say leave aside regional?

MR SIMSON: Yes, just talking city markets right now. In a situation where a newspaper - let's take an example, let's say The Age owned 3AW and let's say you're running both. I mean, what if, any synergies or pressure could you bring to bear to increase your take.

MR THOMPSON: Certainly the various media try to increase their share of revenue for the medium and if that involves taking it from another medium they try to do that. So there is a degree of competition. I know the ACCC looks at them as separate markets and deals with them on that basis. I've never quite agreed with that. I think they try hard enough to make sure that it's not separate. They do try to take money from - radio salespeople, for example, try to take money from television, they try to take money from newspapers, and I'm sure the other media do as well. So there is a degree of competition. Having said that, it's limited it's not - - -

MR SIMSON: It's at the margin, is it?

MR THOMPSON: It's more at the margins, which we try as an industry to make it less of at the margins.

MR SIMSON: Yes, sure.

MR THOMPSON: But there's no doubt that you are more successful in taking advertising from one medium to another if you are dealing directly with a local client. If you're dealing with an advertising agency generally there is a preconception that you deal with before you start. They generally have a concept, it is generally going to be, "We'll do this in - - -"

MR SIMSON: There's a radio pot and a TV pot.

MR THOMPSON: Yes. Direct clients, however, don't view it that way and so if the salesperson is able to access the client directly, because it's a very small client and can't afford an advertising agency or because they are still prepared to talk to a medium despite the fact that they have an advertising agency, if you're dealing direct you have a chance. Quite often you can change a predilection to using television to using radio but when it comes through advertising agencies that's probably not so.

MR SIMSON: In terms of cross-media, if you have a situation where a newspaper could buy a radio station - talking capital city here - or vice versa, how much of an issue, if any, more does it become in your mind if you then have a person owning all three media, not all of the media but a person who owned, say, The Age, 3AW and Channel 9 locally? In other words, the cross-media isn't just bringing two of the mediums together, it's conceivably bringing three of them together.

MR THOMPSON: Which used to be the case of course.

MR SIMSON: Which used to be the case but how big an issue does it become in

your mind jumping from just putting a bunch of TV - so the one person a radio and a newspaper, as to then also owning a television station or does it not make much difference in terms of market segmentation?

MR THOMPSON: I've got less concern about that than I do with a company being able to own a larger number of radio stations in a single market because although there is a potential for cross-promotion which can make it hard for an independent, that having been said, generally my experience is that specialists do their job better. I've got no problem being a specialist radio operator and running against a group that does have a range of media in the market. The fact that they can promote each other is the biggest single problem in my opinion because it's terribly difficult if you haven't got a large promotional budget to advertise yourself to your audience but The Age and Channel 9 and 3AW can run vast no charge advertising schedules each to promote the other. It makes it pretty tough. But that's probably the one which I would be most concerned.

MR SIMSON: You gave us your views earlier from an editorial perspective on the influence question of a newspaper and a radio station in a capital city market. I appreciate that you're coming from the radio end of town but I would also be interested in your comment as to the editorial influence issue, as you see it, between a television station and a newspaper, if the one person was able to have both? Is it any different to your comments on radio or not?

MR THOMPSON: I don't think I'm qualified to answer that question.

MR SIMSON: Okay, thank you.

PROF SNAPE: Should all the AM stations be shifted to FM?

MR THOMPSON: The AM stations actually have an opportunity to bid for FM licences. I'd say no to that question, even though we're sitting in Adelaide with an AM station that I'd actually quite like to have on FM. But the principle is bigger than our own need I think. The people who bought the AM stations generally bought them in the modern era. There are very few owners - and I can't offhand think of any - possibly 2KY in Sydney might have been a long-held operation - generally they've all been bought in the modern era, they were all bought at a price which took account of the fact that they were AM and that other people had FM and that AM was clearly an inferior medium - it is an inferior medium in terms of technically.

They all knew that when they bought in and I think it would be wrong for them then to be rewarded for having made a business decision in one environment and then saying, "We might have made a mistake by doing that," and then being rewarded by being allowed to move to FM. In the early stages of FM, which I was intimately involved in, at that point there were opportunities all over the place to get into FM. It was risky, challenging, people didn't know whether it was going to be successful or not. Some people took the chance and went in and did it and the FM stations were always there. They could have got in if they chose to. In recent times they've gone

into the AM band, bought AM stations. An example I use is, a little bit like buying a house now in the path of the of the - adjacent to Sydney airport under the flight pattern and then saying to the government, "You can't fly planes in." I mean, they knew what they were doing, they paid a particular price to get there and to then say to the government, "Save us from our folly," I don't think that should happen.

MR SIMSON: Could I just move to the issue of digital radio? In your submission you say that:

Current projections indicate that only 40 per cent of households would have one digital receiver even 10 years after the introduction of digital radio.

Could you just talk about that? What's that telling us then about - what are the implications of that then for government policy?

MR THOMPSON: The context in which we brought it forward is that there is a desire from the incumbent FM operators, understandably, to use the imminence of digital to block the granting of additional FM licences in this part of this planning process. What I'm really trying to say there is it is a long way away before the digital side of things is going to be powerful. It simply shouldn't be taken into account in terms of the introduction of or the continuation of the planning process and the granting of additional FM licences. That was the context in which I meant it to be.

MR SIMSON: Okay. Is it your understand that there will be more FM licences granted?

MR THOMPSON: I'd have to say that I'm certainly hopeful. There have been in the regional areas the three - there are five groups - Australia was broken down into five groups. Three of them have been completed in the planning process. Additional licences have been granted comprehensively in those three. If that concept was taken forward into the larger capital city markets then there would be, and we're certainly hopeful that there will be, and we believe there should be but I can't say there will be.

MR SIMSON: Fixed formats - would you just talk about the experience of fixed formats in the UK and why - it's fairly clear from your submission you think it's an inappropriate approach to take here.

MR THOMPSON: Yes, I believe that it's inappropriate to take here - and I don't think it's going to be now. I'm hopeful that it's no longer being seriously entertained although it was at the time that we prepared the submission. What it simply means is that the concept in the UK is based on the principle that as the licence is granted, with that licence a format is described and often, as I understand it, it is something that is brought forward by the operator when seeking the licence and if the regulatory authority doesn't like the format that's being brought forward, then you don't get a licence. The difficulty with it is that the broader formats that appeal to a mass audience in the UK have been taken so the people that come in next will not have the opportunity to compete on an even playing field. They'll get a country and western

format or Fijian dance music format and they will never be, during the term of their licence, ever able to compete on an equal basis.

Our view is that competition where one party is constrained so that they will never be able to compete evenly, isn't competition at all. It is actually a control to ensure that competition never happens and that would have been the result, had it happened here in Australia. I suppose I shouldn't totally dismiss it because it still may happen but I'm hopeful that it won't. It would mean that the existing stations would never have a head-to-head competitor; would never have a strong competitor and we don't need in Australia minority fixed format licences because we already have a community sector that provides very specific, often narrowly targeted, diverse formats for minority groups.

MR SIMSON: Could I just ask a question about the Internet. I notice you're actually quoted on Friday in The Australian - - -

MR THOMPSON: I haven't seen that.

MR SIMSON: This was in response to America On Line's purchase of a spinner.com group and spinner.com is an Internet radio station with more than 100 channels of music. You were quoted as saying that you obviously watch Internet space but the audience is small. People want local radio and they have it. Could you just talk to us about how you see Internet radio evolving in Australia or the extent to which people will access Internet radio, these 100 channels available from AOL in America or whatever they do here and there are numerous other players. Could you talk to us about Internet radio and its competitive threat or opportunity from where you sit?

MR THOMPSON: I actually would like someone to talk to me about it. I honestly find it intriguing but I'm not an expert on it. I'm looking at it carefully and trying to see where it's going. Certainly there's not a great deal of listenership to it at the moment. My view is - and certainly we've done a fair bit of research on this subject - that the degree of localism, the degree that you are providing a community with information about itself, about their lives, and reflecting their lives, is very closely aligned to the degree of success that you have. The concept of a vast range of music formats coming in from overseas which has no element of reflecting the lives of the audience will in my view have limited success. What you're actually doing is paying for something that you get free of charge and it doesn't directly reflect your life. There are people who simply want music, for example, and don't want anybody to talk to them and don't want news or if they want news they might go somewhere else for news, and they don't care if their community isn't reflected.

But our experience, certainly our research, suggests that that's a comparatively small percentage of the population and we believe that provided radio is able to be intensely local - and that doesn't always mean, for example, in Western Australia where we inherited a structure there, as I mentioned before, we have to insert some of the localism from a central point. So it's not actually coming from the market directly,

it's coming from the market to a central point and back to the market again. That is a fact of life I think in the future that we will all have to live with. But I think services that aren't local won't be successful, as a generalisation, but of course technology is providing you increasingly with ways of sending services from other places and inserting the localism and watching that, would have a more informed view after I see how that technology takes care of that.

MR SIMSON: Right.

PROF SNAPE: Well, thank you very much. It has been very profitable and from our point of view it was certainly worthwhile you struggling against the fog in Adelaide and being patient at the airport and coming across. Thank you very much for your submission and also for the very extensive discussion that we've had with you. Thank you very much for that, Mr Thompson. Southern Star apparently got called to Berlin at short notice. They're not with us and we're trying to make some other arrangements to whether they will be.

So that's the end of the scheduled participants and as I said at the beginning, I would ask at the end of today's scheduled hearings whether there are any persons present who would wish to make an oral presentation. I'm not getting any response so I'll say thank you very much and close the proceedings for today, adjourn them for today, and we will be resuming tomorrow morning at 9 o'clock when first up is Kiss FM. So see you tomorrow morning.

AT 4.34 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 8 JUNE 1999

INDEX

	<u>Page</u>
AUSTRALIAN BROADCASTING CORPORATION: BRIAN JOHNS COLIN KNOWLES JULIANNE SCHULTZ GLENN WITHERS	590-625
TELSTRA: DEENA SHIFF JOHN McINTYRE JANE FOWLER	626-647
AUSTRALIAN CHURCHES MEDIA ASSOCIATION: PETER THOMAS	648-655
3UZ PTY LTD (SPORT 927) NOEL CROWE NEIL McCRAE	656-669
WHITEHORSE BOROONDARA COMMUNITY RADIO 94.1 FM: GARY HALEY	670-674
DMG RADIO AUSTRALIA PARTNERSHIP: PAUL THOMPSON	675-692