

SONY AUSTRALIA LIMITED

(ACN 001 215 354)

Submission to Productivity Commission Broadcasting Inquiry

OVERVIEW

Sony Australia Limited supports the government's position to mandate high definition digital television ensuring Australian viewers receive the best possible quality. The selection of this standard has created a viable platform to serve Australians for the next 40 to 50 years.

Australian governments have a tradition of selecting the best possible formats to ensure product longevity and technological excellence. The decision to mandate HD digital TV is in keeping with this and provides a suitable standard to replace the 625 line standard (SD) chosen in 1956.

As technology evolves only the choice of the highest possible quality minimises obsolescence. The alternative condemns both consumers and industry to legacy products.

INTRODUCTION

The announcement by the Treasurer, the Hon Peter Costello, earlier this year, of the establishment of an inquiry into Commonwealth broadcasting legislation by the Productivity Commission did not appear to canvass issues in which Sony Australia Limited (Sony Australia) could be of assistance. The Treasurer specifically charged the Productivity Commission to advise the Government "on practical courses of action to improve competition, efficiency and the interests of consumers in broadcasting services". Sony Australia, therefore, took the view that broadcasting services were primarily a matter for broadcasters, and that manufacturers of broadcasting equipment could not usefully assist the inquiry.

Subsequently the Commission released an Issues Paper which raised questions about digital conversion which Sony Australia had understood were settled matters of Government policy. Sony Australia is the leading consumer electronics company in Australia and has made investments in this country based on the Television Broadcasting Services (Digital Conversion) Act 1998. Sony Australia regards the prospects of any changes or amendments to that legislation with concern. Therefore Sony Australia is making this submission in the hope that its views can be reflected in the Commission's Draft Report.

Sony Australia respectfully submits that the Commission give due weight to global manufacturers who have made an ongoing commitment to the Australian market and will be producing High Definition digital equipment to meet the Australian Standards.

SONY IN AUSTRALIA

Sony is one of the leading television receiver manufacturers in the world, with a world wide market share of approximately 10% in 1998. Sony Australia has a 20% market share of Australian consumer televisions, making it the leading brand in the market.

Sony is also a major supplier of broadcasting equipment for both television production and transmission.

Ever since Sony invented the Trinitron™ television receiver in 1968, Sony has been recognised as one of the most popular and innovative manufacturers. Since then, Sony has extended its television technologies with flat display and Hi-Definition televisions.

ADVANTAGES OF HDTV

Sony Australia strongly supports the Government's decision to choose High Definition Television. Sony – the company that brought the transistor radio and the Walkman to the world – shares the Australian Government's vision. Any deviation from the decision to mandate HDTV will leave Australian consumers and the film and television industries in a technological backwater.

If Australia does not move to High Definition, the adoption of obsolete standard definition technology will inhibit future technological advances. Australian consumers would be forced to buy television receivers which will rapidly become "legacy boxes".

INDUSTRY

Only the adoption of High Definition Digital Television will have the following advantages for Australian industry:

1. High Definition is a new technology, which offers a system that will serve Australia well over the next forty years, as standard definition has served Australia since 1956.
2. The International Telecommunications Union (ITU) has approved one format for program interchange that is 1920 x 1080 resolution. HDTV production for a world market will be in this format providing excellent local and export opportunities for high-quality Australian production.
3. Australia will be established as "the" production and post-production venue for the television and film industry in the Asia-Pacific region. For example, Fox Studios Australia will be producing the next Star Wars movies in HD – without moving to this new technology, Australians would not be able to view this movie in its truest form.
4. Many international programs are already being shot in HD, examples include "Chicago Hope" and "JAG". Australian viewers will be able to enjoy the full experience of these programs.
5. High Definition will assist the convergence of IT, television and other electronics, which is a global phenomenon. It will also assist technologies like e-commerce and

interactivity to flourish and will enable Australian companies to be regional leaders in software development.

Text display – such as email - and the resolution required by many specialised training and education applications will only be possible in a high definition environment.

Sony considers HDTV 1920 x 1080 @ 50Hz to represent the optimum quality deserved by Australian consumers. Conversion to a lower resolution format for delivery would seriously degrade the HD experience.

CONSUMER MARKET TRENDS IN AUSTRALIA

Consumer television receivers:

Direction of the market trend is moving towards larger screen sizes with higher quality picture, which is exactly where HDTV is heading.

This is a clear indication that Australian consumers appreciate the value of higher quality products. An example of this is the success of Sony's WEGA flat screen television range. While this range of televisions is priced at a 50% premium above its screen-size equivalents, it has generated tremendous growth in Sony Australia's television category since its launch in 1998.

For example, a 68cm (29") Wega retails for \$2999 with a second generation model at \$1999. In the year to date, over 30,000 units of these two models were sold in the Australian market, representing 18% of all televisions in this screen size. This year Australian consumers will purchase 230,000 televisions in the over 62cm in screen size.

This year Australians will purchase around 850,000 television receivers, with Sony's current analogue television prices ranging from A\$300 to over \$10,000.

Computer & Digital Imaging

As the boundaries between IT and consumer displays become increasingly blurred, it is worth noting that already computer resolution has evolved up to the current SXGA (1600 x 1200 pixels) and that Sony's range of computer monitors support this range of resolutions.

This trend is also reflected in the digital imaging market where similar resolutions are being offered to the market.

EXPECTED RETAIL PRICES

Initially we expect consumers to opt for HD set top boxes (STB) to allow them to receive HD signals on their existing receivers. Sony will be offering a premium priced decoder which will allow datacasting as well as television reception. Based on current exchange rates, Sony Australia is targeting a suggested retail price of A\$999. We would expect this pricing to be at the premium end of the market.

Based on current exchange rates, Sony Australia is targeting a launch price for an HD receiver built to the Australian Standard of under A\$8,000. Definitive pricing is not possible

without final specification confirmation. The overseas experience detailed below gives an indication of the likely price falls.

These prices would obviously decline over time as the market grows. We have already seen STB price reduction in the US market down from US\$1450 to US\$649 after one year.

PRICE DECLINES FOLLOWING THE INTRODUCTION OF NEW TECHNOLOGY

The key determinant of the rate of price reductions is the pace of the market adoption of new technologies. While Sony Australia is unable to speculate about the likely timing of pricing changes in the Australian market, it may be helpful to review the overseas experience.

Consumer Technologies:

HD set top box pricing – US experience

1998 October:	US\$1450
1999 September:	US\$950
1999 November:	US\$649 (RCA DTC100)

HiVision (HD) analogue television – Japanese experience

1991 launch price:	A\$25,000 (1,750,000Y)
1999 pricing:	\$A5000 (350,000Y)

CD Player – Australian experience

1982 launched at:	A\$1500 for entry level player
1999 pricing:	A\$279 for entry level player

Production Industry technologies:

Professional HD equipment – US experience

1988:	the 1 st generation product range was launched with a price premium of 400% over comparable standard definition equipment
2000:	with the launch of the subsequent generation range the price premium will decrease to approximately 20-30%.

INDUSTRY DEVELOPMENTS

In addition to meeting the growing needs of Australian commercial networks, exciting business opportunities will exist for Australian companies in HD production.

With a local HDTV industry, Australian companies will be at the leading edge of the shift to HD broadcasting and related services. Sony Australia expects to witness increased investment by Australian production houses, support services and advertising agencies to pursue HDTV opportunities in Australia and within the region.

CONCLUSION

Sony Australia is making this information available to the Commission to correct any impression that casts doubt on the viability of HDTV in Australia or that HDTV receivers and set top boxes would be overly expensive, placing them outside the reach of most Australians.

As Sony Australia has detailed, the likely cost of dedicated receivers and set top boxes will be affordable, with significant further reductions as the market grows. This allows Australians to choose the timing most appropriate to their needs.

Furthermore, as demonstrated by independent market figures, Australians are already demonstrating a clear preference for high quality, fully featured, large screen televisions.

The government's choice of high definition with surround sound provides a standard to serve the needs of Australians well into the next millenium.

Sony Australia Limited

1 October 1999