

Office of the Minister of Broadcasting
Office of the Minister of Finance
Office of the Minister of State Owned Enterprises
Office of the Minister of Māori Affairs
Office of the Minister of Communications

Chair
Cabinet Policy Committee

DIGITAL TELEVISION: WORK PROGRAMME AND CONSULTATION (Paper 3)

Purpose

1. This paper identifies key issues arising from a transition to free-to-air digital television. These relate to analogue switch-off, funding of digital services (content), and the implications for public service broadcasting and regulation of a digital environment characterised by increasing convergence between broadcasting, telecommunications, and the internet. The paper also deals with stakeholder consultation in relation to these matters. It is the final paper in a set of three, submitted together to the Cabinet Policy Committee, dealing with the next phase of decisions required to advance free-to-air digital television.

Executive Summary

2. The launch of a free-to-air digital television (DTV) platform begins a lengthy simulcast period with duplication of transmission costs. The cost of maintaining ageing analogue infrastructure will also increase.

3. There is likely to be a net national benefit (estimated at \$230 million) if a full transition to DTV is achieved by around 2015. Analogue switch-off (ASO) is therefore considered to be in the national interest. There are several consequential issues (such as the position of local broadcasters) that the government needs to consider to expedite a smooth transition to ASO.

4. The provision of quality, digital-only services is a critical factor in the rapid viewer take-up of DTV that will minimise the time required for a transition to ASO. There is an opportunity to ensure enhanced public value through the provision of digital-only content reflecting New Zealand's culture and identity. This paper proposes that NZ On Air and Te Māngai Pāho consider designating a proportion of baseline funding for digital content as new digital channels are confirmed.

5. A transition to DTV represents a significant change to the broadcasting business environment and brings it closer to convergence with telecommunications and internet services. An analysis of the future of public broadcasting in this context is warranted. It is further proposed that current regulatory settings are reviewed to ensure they remain appropriate to a converging digital environment.

6. A transition to DTV will also require almost 60 per cent of New Zealand households to convert to digital reception. A public education programme will ensure that citizens are fully informed of both the benefits of DTV and the implications of an eventual ASO.

7. These considerations create a substantial DTV work programme, with a requirement for stakeholder consultation and for officials to report back within specified timeframes.

Background

8. In 2003 Cabinet noted that ‘the development of digital services by broadcasters may involve higher costs for government, both in direct subsidy to public broadcasters and general subsidy via the funding agencies, which the Government would need to consider among its other broadcasting priorities’. In addition, it noted that it ‘also presents opportunities for the creative and economic development of the television production industry’. It also noted that ‘the viability of TVNZ and the Māori Television Service in the longer term depends on their being enabled to be major providers of digital content’ (EDC Min (03) 19/3).

Analogue Switch-Off (ASO)

9. The launch of a free-to-air digital terrestrial (DTT) platform would commit broadcasters and the transmission company, Broadcast Communications Ltd (BCL), to an indefinite period during which core television channels would need to be simultaneously transmitted in both analogue and digital forms (simulcast). This is because currently almost 60 per cent of New Zealand households do not have the equipment to receive a digital signal. If analogue signals were discontinued too soon there would be significant public disruption, as those who had not purchased reception equipment (such as a set-top box) would find their television could no longer receive a signal. Broadcasters will not wish to commit to a DTV launch without some agreement around a likely end to the costly simulcast period.

10. At the same time, the analogue transmission system is approaching obsolescence. While TVNZ considers that the existing infrastructure could be maintained on a ‘do minimum’ basis for up to ten years, major capital expenditure would be required by 2017 in the absence of a transition to digital broadcasting. Some spare parts for existing transmitters are already scarce, and as many other countries have already embarked on a transition to digital, such shortages will become more prevalent. A launch of DTV could allow capital investment to be controlled, so that the analogue infrastructure would have a lifespan commensurate with the likely transition to ASO.

11. A move towards a fully digital broadcasting system (encompassing pay television, but ensuring that a free-to-air option is available for all New Zealanders) would put New Zealand back on an equal footing with countries such as the UK, Australia, Canada, France, Italy, USA, Finland, Sweden, Germany, and Greece, which have already begun the transition towards analogue switch-off. These governments have used support mechanisms to facilitate this transition, in order to secure the continued provision of universal access to free broadcasting services within a global environment that is increasingly defined by conditional access, subscription-based services. They have wished to secure a viable future for public service broadcasters and to exploit the opportunities for innovation created by digital technology. ASO will also enable governments to realise the value of the spectrum that can be released at the conclusion of a simulcast period. A table listing the measures taken in a number of countries is attached as Appendix 1.

12. Digital technology allows for significantly more efficient spectrum use, especially once the spectrum used for analogue transmission is freed up following switch-off. A transition to DTV therefore creates opportunities for new broadcasting entrants, or for those in related sectors such as telecommunications. Possible future uses for spectrum have been identified as including mobile broadcasting, private or public access mobile radio, fixed wireless access systems, and digital radio.

13. As noted in paper 1 in this set (*Overview of Proposed Approach and Cost-Benefit Report*), the cost-benefit report conducted by Spectrum Strategy Consultants concludes that a net benefit to New Zealand is likely to be derived from a transition to DTV, providing analogue transmission is eventually switched off. The optimal timeframe for ASO is identified as the period 2012 to 2015.

14. The experience of other countries suggests that the transition to analogue switch-off is likely to take a minimum of six years. This reflects the time required for a ‘pull’ approach – persuading

consumers to purchase the necessary conversion equipment – to result in most households taking up digital. Conversion of remaining households is usually achieved with a ‘push’ approach, after the announcement of an analogue switch-off timetable.

15. Consistent with international experience, the cost–benefit report confirms that a launch of free-to-air DTV and eventual analogue switch-off are in the national interest. In the absence of ASO, the net national costs of launching a free-to-air digital platform are estimated to be up to \$156 million over the 20 years to 2025 under the base case modelled in the report.

Analogue Spectrum Resource Charges

16. Paper 2 in this set of papers, dealing with platform and spectrum issues, outlines the FreeView group’s request for a waiver of the resource charges payable when analogue UHF and VHF licences are renewed – in 2010 and 2015, respectively. As discussed in that paper, support for fee waivers is not recommended. Assuming a transition had begun, however, but ASO had not been achieved by these dates, renewal on standard terms is unlikely to be appropriate. It may instead be desirable to institute a performance-based formula for licence renewal through to ASO (i.e. charges to be reduced, based on DTV viewer take-up levels), to be confirmed by 2010. The existing policy with respect to renewal at expiry is for a review five years in advance, followed by potential renewal, with incumbents having first right of refusal. It is proposed that this should continue in the short term, subject to further consultation with broadcasters on a process and criteria for ASO.

Local and Regional Broadcasters

17. ASO would have implications for a range of free-to-air services. In particular, a number of small local and regional broadcasters would need to transfer their services from analogue to a free-to-air digital delivery platform. DTT provides the only viable option for local broadcasting, as the signals can be contained to specific regions. For the proposed FreeView launch of DTT, multiplexing arrangements will result in four transmission regions for New Zealand. The transmission cost for a service to each of these regions is estimated at [Withheld under OIA s9(2)(b)(ii)] This is likely to be beyond the budgets of most regional broadcasters and would provide coverage beyond the requirements of most local broadcasters.

18. The options for government to consider are: to subsidise transmission costs for those local broadcasters meeting agreed public broadcasting and/or local content objectives; to apply a ‘must carry’ obligation to those broadcasters or transmission companies allocated a multiplex on favourable conditions (limited to local broadcasters meeting government policy objectives, with criteria to be defined); or to delay decisions on digital transmission for regional broadcasters until [text withheld under OIA section 9(2)(f)(iv) and 9(2)(j)] or a more cost-effective transmission option can be identified.

19. Since they are not crucial to a DTV launch, it is recommended that Cabinet defer a decision on local and regional broadcasters, pending further research into cost-effective DTT transmission options, but reserve the option of applying a limited ‘must carry’ obligation on multiplex operators as a condition of spectrum allocation on favourable terms.

Dealing with Non-Adopters

20. Other countries have introduced a variety of ‘push’ mechanisms to deal with the digital conversion of the last 5 to 10 per cent of analogue households. The USA, for example, has regulated to ensure that only integrated receivers can now be sold. Italy is heavily subsidising a set-top box (STB) for each household. The UK has announced that it will subsidise STBs for the elderly and disabled, and has set aside £300 million for a public education campaign through Digital UK.

21. Following a DTV launch, the situation will need to be carefully monitored and an assessment made of whether and to what extent government needs to encourage a final move towards ASO. The cost–benefit report estimates the total cost of converting the final 10 per cent of households to a digital

service at around \$25 million. It notes that no decisions on non-adopters have been taken, but makes the working assumption that costs would be shared equally between broadcasters and government.

International Approaches to ASO

22. Some governments (including the USA and Australia) set specific ASO dates at the time of launching free-to-air DTV. Experience suggests that setting a date up-front tends to be unrealistic, with several jurisdictions forced to postpone target dates. Many are now planning for ASO around 2010 to 2012. The previous Cabinet consideration of digital television issues in August 2003 concluded that no specific date should be set for ASO.

23. The approach taken by the UK is proving more workable. This involved agreement between government and industry stakeholders on the criteria which would need to be met before a target ASO date was announced. These included a 50 per cent DTV penetration threshold. Following the announcement (now confirmed as 2012), a process to achieve a region-by-region switch-off has been agreed and is being implemented through a newly-formed entity, Digital UK. ASO will not occur until total (free-to-air and pay) digital penetration has reached at least 95 per cent of households. A similar, staged process is recommended as appropriate for New Zealand.

24. Following a decision that ASO is in the national interest, it is recommended that consultation with industry stakeholders be undertaken to consider appropriate criteria and a process to be followed to reach ASO. It is further recommended that the question of when new licences for analogue services should cease to be issued is considered at the same time, and that understandings on the scope of ASO (i.e. which current analogue services would cease with the switch-off) should be reached in consultation with broadcasters and the transmission company, BCL. Preliminary draft criteria and a process for ASO should be reported back to the Ministers of Broadcasting and Communications by November 2006.

Critical Factors for the Achievement of ASO

25. The cost-benefit report summarised the critical factors for a smooth and successful transition to ASO as:

- service mix (whether the package of digital channels represents an improvement on analogue offerings);
- cost and ease of switch (of STBs, aerial/dish and installation);
- coverage and reception (whether there is a digital option for all households, and picture and sound quality are improved);
- promotion and coordination (whether government, broadcasters and the supply chain work together to promote widely the DTV options and explain the implications of ASO); and
- competitive environment (strength of pay TV and whether the free-to-air package is sufficiently differentiated for viewers).

Some of these factors are in the hands of broadcasters. Several matters requiring government involvement, addressed in paragraphs 26 to 42 and 49 to 50 of this paper, would help create optimal conditions for a transition to free-to-air DTV by encouraging take-up and thus minimising both the transition period and the need to consider 'push' factors as ASO approaches.

Digital Services (Content)

26. The cost-benefit report identifies new, digital-only services as the single most important factor for a successful transition to DTV. Digital services include enhancements such as widescreen versions of programmes and niche channels (children's, news, etc.) building on content made for core, mass-audience channels. Digital services can also be used to encourage viewers to make the switch; for example, selected premium content such as drama series might be promoted widely but transmitted first on a digital-only channel, then re-screened on a core, simulcast service.

27. As part of its response to the Cabinet decision in 2003 (EDC Min (03) 19/3) inviting TVNZ and MTS to prepare plans for digital services,

[Text withheld under OIA sections 9(2)(b)(ii) and 9(2)(ba)(i)]

28. Although the FreeView group has made a submission to government in relation to a free-to-air digital platform, its proposal does not deal with digital content issues. In large part, this is because the FreeView members will compete for audience within their shared platform, so content plans can only be developed at an individual level. The ability to launch a hybrid platform will strengthen the case for TVNZ and other broadcasters to invest in new digital services, however.

29. In considering the FreeView request for platform support, it is necessary to consider the likelihood of any decisions triggering later requests for substantial public funding of content costs. In this context, it is worth noting that:

- any new digital services are likely to operate on a different cost basis from core free-to-air channels, drawing heavily on existing broadcaster resources – e.g. in-house news production, programme catalogue (for second or third plays) – implying incremental costs only;
- non-affiliated channel options also exist, such as shopping channels, or pre-packaged carriage services that are largely cost-neutral for broadcasters;
- some digital services involve ‘enhancements’ such as widescreen versions or on-screen information guides that may also be introduced at an incremental cost; and
- new services on the FreeView platform could include existing channels such as Juice TV (currently free-to-air in Auckland only), which are largely accessed via pay TV subscriptions.

30. BCL’s plans for a DTT roll-out

[Text withheld under OIA sections 9(2)(b)(ii) and 9(2)(ba)(i)]

31. TVNZ’s draft plan

[Text withheld under OIA sections 9(2)(b)(ii), 9(2)(ba)(i), 9(2)(f)(iv) and 9(2)(g)(i)]

32. The government could require all broadcasters to meet the full cost of all new services. It is likely, however, that this would result in lower quality services and less diversity of content for New Zealand viewers than would be achieved with some subsidy.

33. For broadcasters, a transition to digital technology creates few new revenue generation opportunities in the short to medium term, when the costs of launching and managing DTV are at their highest, with capital investment in infrastructure, heavy promotion of the digital platform and the duplicated costs of simulcast all taking effect. Thus, while commercial broadcasters understand their

importance as part of the DTV package, initial expenditure on new services is likely to be kept to a minimum while take-up rates are monitored. Modest support in the form of contestable funding, with options for ensuring that the public broadcaster could take the lead in providing attractive new digital-only services, would avoid the risk of a vicious circle of low investment and low take-up rates.

34. The likely launch of a free-to-air DTV platform during the 2006/2007 year therefore provides an opportunity to influence the content and quality of new service offerings to better fulfil national identity and public service broadcasting objectives, including promoting Māori language and culture.

35. Although this was not identified by the broadcasters (including TVNZ) in their business case, it is therefore recommended that, as an initial measure, an opportunity for contestable content funding for new digital-only services be created, in order to complement the platform support package outlined in paper 2 in this series. This is for the following reasons:

- as a signal of the government's commitment to launching DTV with the aim of making an efficient, cost-effective transition to ASO;
- to ensure continued visibility of diverse expressions of New Zealand's national identity in a fully digital environment, and encourage programme innovation to take full advantage of the opportunities offered by digital technology;
- as re-confirmation of the government's commitment to protecting and promoting Māori language and culture through broadcasting, and its endorsement of the Māori Language Strategy; and
- Cabinet's agreement to the principle that publicly funded content should continue to be universally available would be re-confirmed as a digital free-to-air platform was launched.

36. It is recommended that NZ On Air and Te Māngai Pāho be invited to consider how they might best support a transition to free-to-air digital television. This could include designating a proportion of their baseline television funding for new digital content or for digital enhancements to existing content, as new digital-only television channels are confirmed and taking into account each agency's statutory requirements and policies (including promoting Māori language and culture). It should be noted that some digital enhancements, such as interactivity, could not currently be funded through NZ On Air or Te Māngai Pāho, pending an amendment to the Broadcasting Act, 1989, to update the definition of broadcasting or adjust the agencies' functions. This is being managed through a separate but parallel process to implement priority 6 of the Public Broadcasting Programme of Action (POL Min (04) 31/5).

Regulatory Policy

37. The launch of and transition to DTV represents a significant change to broadcasting infrastructure. It also changes the competitive relationship amongst free-to-air broadcasters, and between pay and free-to-air operators. The ability to manage spectrum capacity to deliver a variety of services (including high-definition television), and to control access to the electronic programme guide that is an on-screen navigation tool for programmes and services, are two examples of such changes.

38. Furthermore, the launch of a FreeView digital television platform is a first step – albeit an important one for free-to-air broadcasters – along the digital highway. Globally, new forms of broadcasting confirm the reality of the long-heralded convergence between broadcasting, telecommunications and the internet. This will, for example, see telecommunications operators offering 'triple play' voice, data and video services for a monthly subscription, or charging 'on demand' fees to view individual programmes. It will also see internet service providers (ISPs) offering streamed or downloadable programmes for a fee.

39. Internationally, as in New Zealand, there have traditionally been separate regulatory policies for broadcasting, film, telecommunications and the internet. In the future, however, the main business distinctions are likely to be between content creation/provision and content aggregation/delivery. This

convergence is leading governments such as those of the UK and Australia to review regulatory structures to ensure better alignment between hitherto distinct technologies.

Proposed Areas of Review

40. It is proposed that current regulations within the broad areas of competition policy and standards (as listed below) should be reviewed, in coordination with other work that is under way within some of these areas (under priorities 5 and 6 of the public broadcasting Programme of Action and the current review of telecommunications regulation), to assess their continued appropriateness and adequacy in the planned and emerging digital environment. Such reviews would not be undertaken with an implied *intention* to make changes, and some objectives are likely to be achievable through industry self-regulation or co-operation:

Competition

[Text withheld under OIA sections 9(2)(f)(iv) and 9(2)(j)]

Standards

[Text withheld under OIA sections 9(2)(f)(iv) and 9(2)(j)]

Intellectual Property

[Text withheld under OIA sections 9(2)(f)(iv) and 9(2)(j)]

41. A review of these issues would be preceded by a research project to categorise and summarise current regulatory policy, to analyse international comparisons and to prepare a discussion paper for consultation with industry stakeholders. In addition, the question of whether the Broadcasting Standards Authority's responsibilities should be extended to new delivery platforms is to be investigated under priority 5 of the Programme of Action. Officials would be asked to report the results of this research to relevant Ministers by November 2006, and to report back to Cabinet Policy Committee with recommendations by June 2007.

Future of Free-to-air and Public Service Broadcasting

42. Digital technology is defining global trends in broadcasting. The cost-benefit report summarises the key trends as:

- **Digitisation** of the entire value chain from production to reception;
- **Internet protocol television (IPTV)**, allowing programming to be streamed or downloaded via the internet, with the result that telephone companies, ISPs and cable TV companies are moving into each other's markets;
- **Time-shifted and non-linear television**, using devices such as the MySky personal video recorder (PVR), which allow many hours of recorded programming to be stored on a hard drive. When PVRs are networked, true 'video on demand' or non-linear television will be enabled; and
- **High-definition television (HDTV)**, which is emerging as the means of delivering premium (high quality) broadcasting, requires more bandwidth per channel.

The report notes that 'one of the biggest single impacts to the New Zealand market over the next ten years may be the launch of a digital free-to-air platform'. This is because most new digital delivery

options will be pay- or subscription-based. IPTV in New Zealand, for example, is likely to be a subscription service carrying both free-to-air and pay television content.

43. Internationally, many governments have concluded that public service broadcasting will continue to be important in the digital future. (The review by the UK regulator, Ofcom, of public service television broadcasting is one example.) Decisions have been made to facilitate a public broadcaster-led transition to a digital platform in order to retain a viable public service broadcasting model, to allow broadcasters to be strongly visible participants on all other platforms (BBC Worldwide has signed a content agreement with British Telecom for its planned TV over broadband service, for example), and to enable the delivery of public service broadcasting in new ways.

44. With no transition to DTV, the ability to deliver public service broadcasting that has broad reach and impact would be seriously compromised. As multi-channel pay TV penetration increased, free-to-air audiences would continue to decline, with consequent impact on advertising revenues. Reduced revenues would in turn lead to decreased budgets for commissioning local content and purchasing premium international content.

45. Conversely, if the public service broadcasters are supported in launching a free-to-air digital platform, the options for delivering public service broadcasting across all current and emerging platforms remain open, and its future is more secure. With a public service broadcasting-led platform, TVNZ forecasts [*Text withheld under OIA sections 9(2)(b)(ii) and 9(2)(ba)(i)*]

The cost-benefit report notes that the competition from other platforms for audience does not result in a proportionate decrease in advertising revenue (a selection of graphs illustrating these trends is attached as Appendix 2). For as long as free-to-air broadcasters provide a significant mass market by comparison with pay providers, they will be able to command a premium from advertisers. This continues to be the case in the USA, for example, where subscription television has for some years captured more than 50 per cent of the total market.

46. Over the longer term (for example, towards the end of the 20-year timeframe for the cost-benefit report, which forecasts that IPTV could be in almost 20 per cent of New Zealand households by 2025), it is likely that public service broadcasters such as TVNZ will need to adapt their business model to deal with platform competition and a trend towards on demand viewing. This could include, for example, developing new forms of sponsorship, embedded 'in-programme' advertising, or deeper (more interactive) advertisements. So long as a primary platform delivering public service broadcasting remains freely available as a mass-market offering, the supplementary inclusion of TVNZ services on other platforms remains consistent with its legislation and is an extension of its current arrangements for carriage on the SKY platform.

47. In the paper for Cabinet [*Withheld under OIA s 9(2)(f)(iv)*] (referred to in paragraph 31 above), the Minister of Broadcasting will ask officials to prepare a paper presenting the government's digital television policy and the place and value of TVNZ and public broadcasting within it.

Public Information

48. Factors seen as critical to the success of a transition from analogue to free-to-air digital television include:

- clarity and consistency of the objectives of DTV, from both broadcasters and the government;
- a clear and widely publicised message to consumers and citizens about the transition, what it means, what steps they will need to take, and when they will need to take them;
- a minimum of five years' notice of an impending ASO; and
- a clear understanding of the options available to households in terms of transmission signal and thus reception equipment required.

The free-to-air broadcasters will contribute substantial resources (calculated at [OIA s.9(2)(b)(ii)]¹ in the first year, mostly in the form of potential advertising revenue foregone) towards an on-air promotional campaign, advising viewers of the launch of a free-to-air digital platform, the benefits it will bring, and their options for receiving it. This campaign will, of course, be developed with a commercial perspective. Each network is also likely to promote its own services within the FreeView platform.

49. The scale of the transition, and its impact on most New Zealand households, would support the development of a modest public information programme to complement the on-air campaign. Such a programme would be an important risk-management tool, explaining the implications of a transition to DTV for New Zealand citizens from the perspective of the government's public broadcasting objectives. [Text withheld under OIA section 9(2)(f)(iv)]

Government–Industry Group

50. This paper proposes a consequential programme of work to give effect to the high-level decisions Cabinet is being asked to consider. It is evident that a transition from analogue to free-to-air digital television will take between six and ten years.

[Text withheld under OIA section 9(2)(f)(iv)]

Fiscal Implications

51. No fiscal implications arise from the recommendations in this paper. The proposal to invite NZ On Air and Te Māngai Pāho to designate a proportion of their baseline budgets for digital content as circumstances permit is fiscally neutral. The paper notes that the Minister of Broadcasting plans [Text withheld under OIA section 9(2)(f)(iv)]

Human Rights and Legislative Implications

52. None.

Treaty of Waitangi Implications

53. The establishment of a free-to-air digital television platform, which the recommendations in this paper support, would provide for the promotion and protection of Māori language and culture through the participation of Māori Television, TVNZ and Radio New Zealand, and by the inclusion of programming funded by Te Māngai Pāho and NZ On Air.

Regulatory Impact and Compliance Cost Statement

54. Not required.

Publicity

55. A proposal for publicity is included in the first paper in the current series, on *Overview of Proposed Approach and Cost–benefit Report*.

¹ Discounted to \$12 million in the cost–benefit report

Recommendations

56. It is recommended that the Committee:

1. **agree** that analogue switch-off is a government objective for the launch of and transition to free-to-air digital television;
 2. **direct** officials to consult with industry stakeholders and report back to the Minister of Broadcasting and the Minister of Communications by November 2006 with preliminary recommended criteria and a process to trigger analogue switch-off (ASO);
 3. **agree** that existing policies for analogue spectrum licence renewals should continue in the short term, with options such as DTV performance criteria to determine resource charges to be discussed with broadcasters in the context of the consultations over ASO criteria;
 4. **agree** that the options for local and regional broadcasters to participate on the DTT platform be investigated, and that in the meantime the right to introduce a 'must carry' provision as a condition for the allocation of a multiplex on favourable terms be reserved;
 5. **note** the importance of new digital services and content to encouraging viewer take-up of digital television, and to deriving enhanced public value, including local content, from the free-to-air digital platform;
 6. **note** that TVNZ's plans for digital services are likely to be submitted to shareholding Ministers within two months;
 7. **invite** the Minister of Broadcasting to discuss with NZ On Air, consistent with the agency's legislative role, functions and policies, designating a proportion of its baseline television funding for new digital content or for digital enhancements to existing content, as and when new digital-only television channels are confirmed;
 8. **invite** the Minister of Māori Affairs to meet with Te Māngai Pāho to encourage the agency to consider how best it might support a transition to free-to-air digital television;
 9. **direct** officials to review regulatory issues relevant to a new digital broadcasting environment, and to report back to Cabinet Policy Committee with recommendations by June 2007;
 10. **note** that the Minister of Broadcasting intends [*Text withheld under OIA section 9(2)(f)(iv)*] asking officials to prepare a document presenting the government's digital television policy and the place and value of TVNZ and public broadcasting within it;
 11. **note** that the Minister of Broadcasting plans [*Text withheld under OIA section 9(2)(f)(iv)*]
- and
12. **invite** the Minister of Broadcasting to consider [*Text withheld under OIA section 9(2)(f)(iv)*]

Hon Steve Maharey
Minister of Broadcasting

Hon Dr Michael Cullen
Minister of Finance

Hon Trevor Mallard
Minister of State-Owned Enterprises

Hon Parekura Horomia
Minister of Māori Affairs

Hon David Cunliffe
Minister of Communications

APPENDIX 1 TO PAPER 3: WORK PROGRAMME AND CONSULTATION

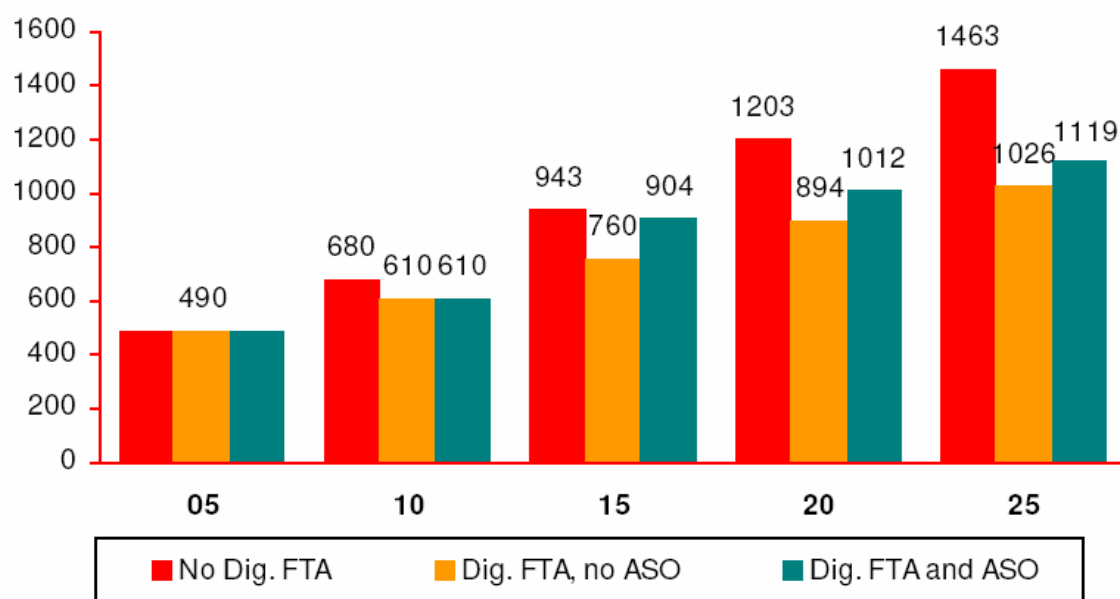
PUBLIC FUNDING OF DTT IN THE EU (CURRENT AND PLANNED)

Country	Additional funds to PSB	Network funding	Consumers' STBs
US			Yes <ul style="list-style-type: none"> - US\$1.5bn govt subsidy program for purchase of digital STB - qualifying households entitled to up to 2 US\$40 coupons¹¹⁶
UK	Yes <ul style="list-style-type: none"> - a potential licence fee rise to £180 per year in next eight years (from £131.50) has been asked for from the BBC, however, not all will be used to fund digital services. No decision has been taken as yet 		
Australia	Yes <ul style="list-style-type: none"> - \$1bn to help ABC and SBS convert to digital (not specific to transmission or content)¹¹⁷ - \$250m over 13 years through the Regional Equalisation Program for regional and remote commercial broadcasters (as rebates on licence fees)¹¹⁸ - ABC has asked Government for an additional \$13.9m specifically for digital content production to boost digital take-up 		
Sweden	Yes <ul style="list-style-type: none"> - end-user licence fee increased 	Yes; loan provided	
Finland	Yes <ul style="list-style-type: none"> - end-user licence fee increased - part of sale proceeds from transmission network can be used for DTT 		
Germany	Yes <ul style="list-style-type: none"> - part of licence fee earmarked for DTT 		Yes (limited)
Greece	Yes <ul style="list-style-type: none"> - licence fee increase of 30% from €38.8 per year 		
Italy	Yes <ul style="list-style-type: none"> - 25% of proceeds from sale of RAilway can be used for DTT 		Yes <ul style="list-style-type: none"> - €110m included in 2006 budget to subsidise interactive STBs - subsidy likely to be reduced from €70 to €50 per household¹¹⁹
Spain	At end of 2005, the Spanish government had invested €10m ¹²⁰		
Norway	Government will not use public funds to support launch of DTT ¹²¹		
France		Yes	
Austria ¹²²	Yes	Yes	Yes
Denmark	Yes	Not yet decided	
Ireland	Govt. considering PSB financing		
Poland			Limited measures being considered
Lithuania			Excl. of VAT on STB being considered
Belgium	Yes	Yes	

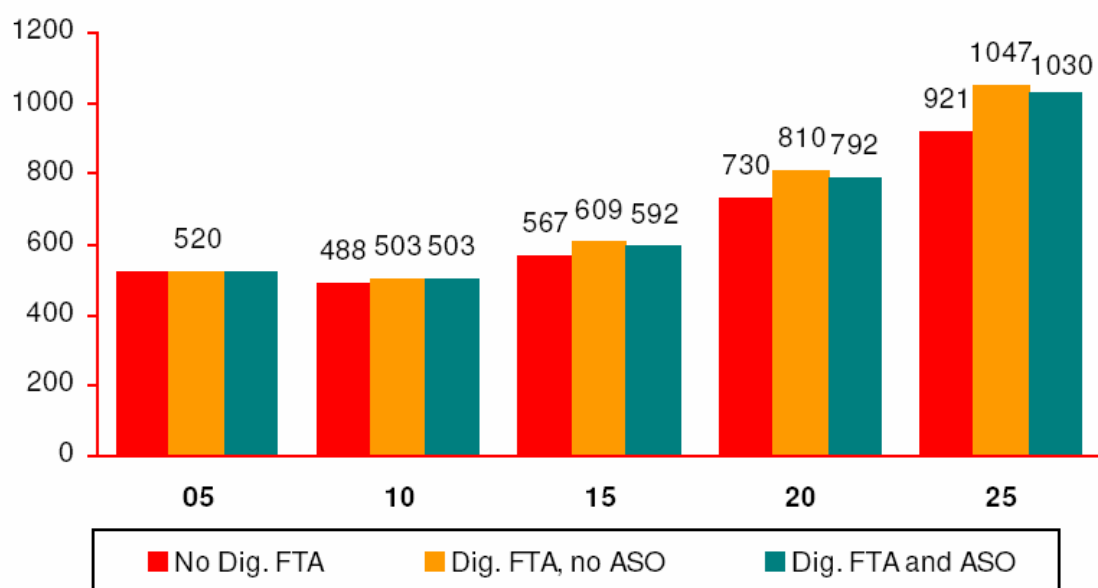
Some countries have been specific about the aid to be given (e.g. for content, or for platform) while others, such as Austria, have set up central funds for free-to-air digital television. The most common means of support has been an increase in public broadcasting fees.

APPENDIX 2 TO PAPER 3: WORK PROGRAMME AND CONSULTATION

PROJECTED PAY TV OPERATOR REVENUES (\$NZm real)

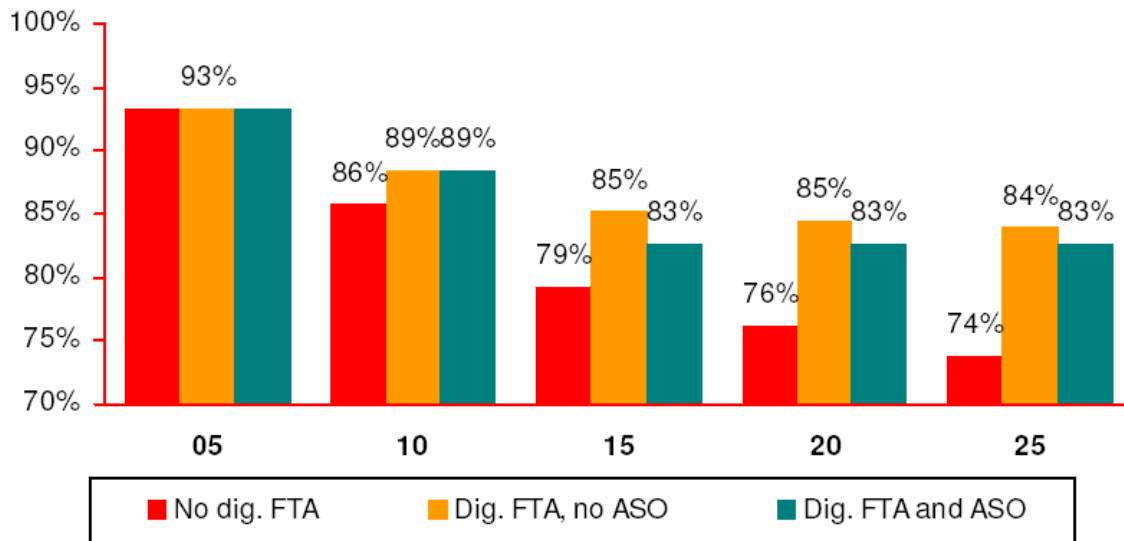


NEW ZEALAND FORECAST FTA ADVERTISING REVENUES (NZ\$m real)

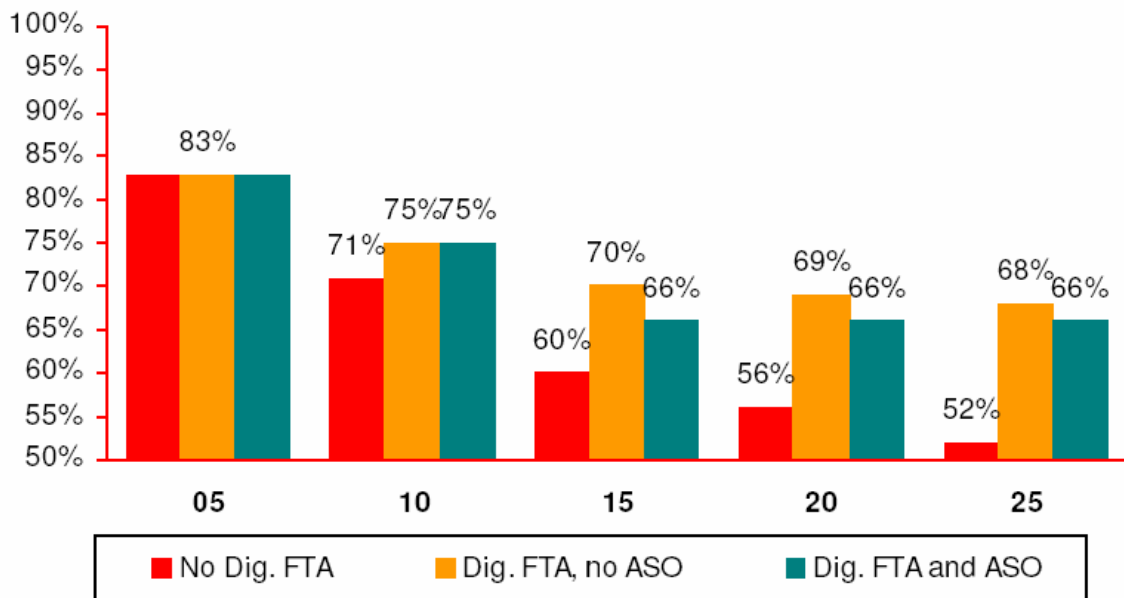


The above tables demonstrate that, in the absence of free-to-air digital television, pay TV operators revenues are likely to grow significantly, and outstrip the combined free-to-air broadcasters' earnings by 2025 (\$1.46 billion (pay) versus \$921 million (FTA)). With free-to-air digital television and analogue switch-off, FTA TV revenues show stronger growth, with earnings almost equally shared with pay TV (\$1.1 billion (pay) versus \$1.0 billion (FTA)).

FORECAST FREE-TO-AIR ADVERTISING REVENUE SHARES IN NEW ZEALAND



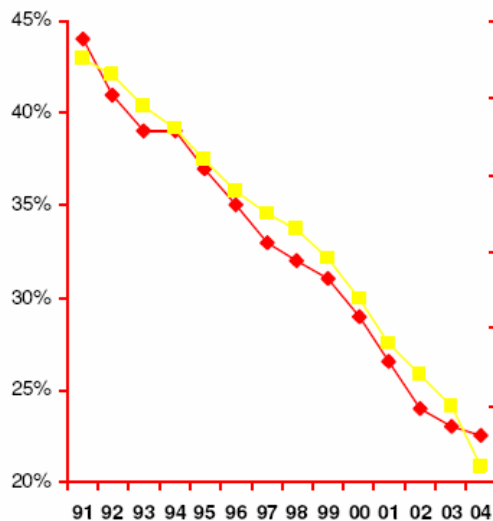
NEW ZEALAND FORECAST FREE-TO-AIR VIEWING SHARES



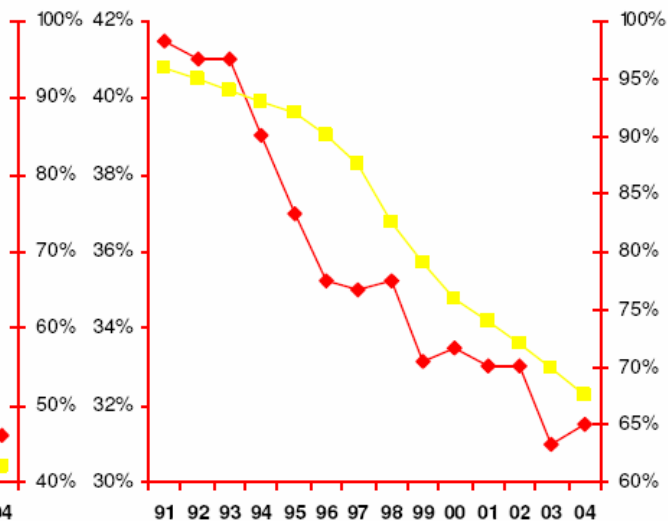
The continued rise in multi-channel platforms will gradually erode both free-to-air television's audience share and its share of advertising revenue. The above tables demonstrate that the decline in both audience and revenue shares for free-to-air television is markedly slowed with the introduction of FTA digital television, however.

FREE-TO-AIR VIEWING SHARES VS NON-MULTICHANNEL PENETRATION

ITV1 (UK)

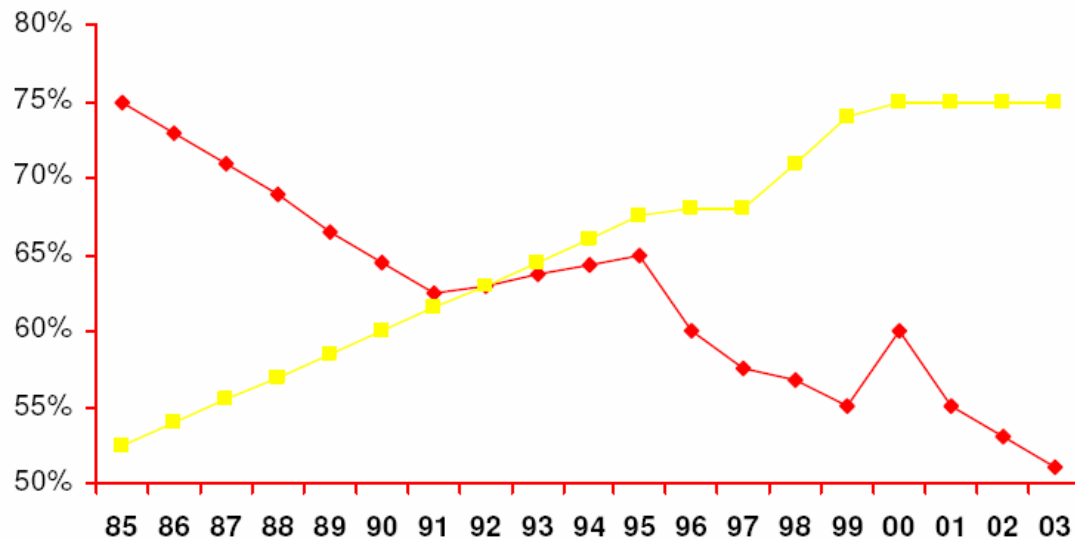


TF1 (FRANCE)



Viewing share (red line with diamonds) and Non-multichannel homes (yellow line with squares) (rhs axes)

US NETWORK (FREE-TO-AIR) SHARE VS MULTI-CHANNEL HOMES

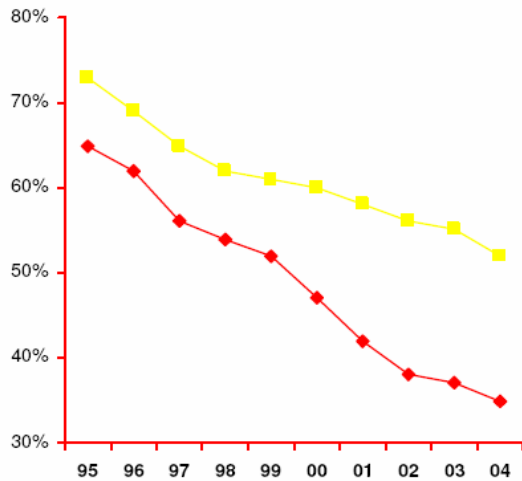


Viewing share (red line with diamonds) and Multichannel homes (yellow line with squares)

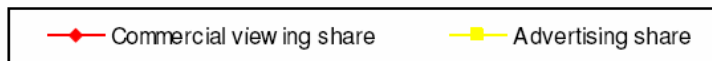
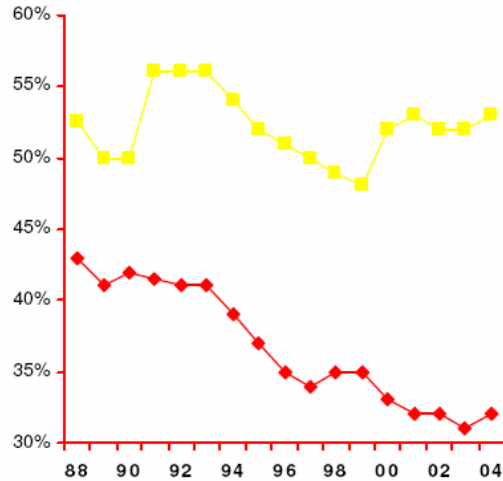
As the number of homes without multichannel (pay) services falls, there is a commensurate decline in free-to-air audience shares. This illustrates the importance of free-to-air broadcasters making a transition to digital to compete more effectively in a multi-channel environment.

COMMERCIAL VIEWING SHARE AGAINST ADVERTISING REVENUE SHARE

ITV (UK)



TF1 (FRANCE)



As the television audience fragments, free-to-air advertising revenues will come under increasing pressure. However, international experience suggests that the major free-to-air channels are able to defend their share of advertising revenue better than their share of viewing as they still remain the only real mass market option for advertisers. The above table demonstrates that both ITV and TF1 have seen their advertising share drop, but at a slower rate than their audience viewing share.