To pay or not to pay?

John Saunderson, MP, in presenting the report of the House of Representatives Committee on subscription television, explains its recommendations and calls on the government to make decisions

This report which deals primarily but not exclusively with pay television is the third of its kind in 7 years. I trust that it is the last. There is now a mountain of information on the subject. What is required now is not further inquiries and more mountains of information but decisions - decisions on the introduction of pay TV, decisions on its market structure and decisions on the extent of regulation and the regulatory framework.

The committee report has blazed a trail for making and taking such decisions. The report offers the government a model for the successful implementation of pay TV in Australia. This model has the following 5 major features:

1 cable/microwave multi-point distribution (MDS) - and later cable as the primary delivery mechanism for pay TV;
2 multi-channel systems operating in a large number of markets with exclusive franchises for each pay TV operator;
3 legislative requirement for each operator to provide one channel initially, for local and community programming;
4 licences awarded to the highest bidder with renewal virtually automatic; and
5 minimal regulation because of the value for money characteristics and direct subscriber/operator relationship of pay TV.

Why pay TV?

After a very thorough examination of these issues the majority of the committee supports the introduction of pay TV. This conclusion was reached after the application of two approaches - the net social value approach and the market (why not pay TV) approach. The report says that if properly managed pay TV provides net social benefits by:

- increasing diversity not only through market driven programming but also by local and community programming; and
- promoting the plurality of views in Australian society through diversity of ownership and non-commercial programming.

In other words although pay TV is a commercial product and will live or die by its commercialism, this is a once in a lifetime opportunity to achieve non-commercial objectives. These twin goals dominate the committee model.

Preferred delivery system

If these social objectives are to be achieved the choice of delivery system cannot be left to the market and there is therefore a role for government. Such objectives become criteria in the selection and the table on comparative advantages of delivery systems applies these and other criteria. Application of such selection criteria has led the committee to recommend cable/MDS with conversion to full cable when it becomes available, as the primary method of delivery for pay TV.

Direct broadcasting by satellite has been rejected as a delivery mechanism because it cannot satisfy several selection criteria. It can provide little diversity of ownership because it serves the national market and therefore there are no opportunities for local and community programming. It cannot provide for advanced television capacity. But perhaps the biggest disadvantage is cost to subscribers. Due to the cost of earthstations outside the 52 DBW contour, Aussat sees pay TV being delivered only by community ownership arrangements. This could affect adversely market penetration of pay TV in these areas, further there is the investment loss for metropolitan subscribers who switch to the bigger capacity cable technology when it becomes available.

The Committee does not support the satellite/MDS options proposed by Aussat and Independent Television Newcastle. It is clear from the table on comparative advantages of delivery systems that cable should be the pay TV delivery system in the long-term. The superiority of cable is recognised by almost everyone. Care should be taken not to put in place short-term measures which inhibit the introduction of cable. The use of indirect broadcasting by satellite with MDS as the primary method of delivery for pay TV, particularly with "soft entry" pricing and long-term contracts for satellite delivery, would inhibit the introduction of cable.

The attempt to cater for local and community programming by having a satellite/MDS delivery system in markets which can support commercially such programming, (and the extra cost of MDS) is unrealistic. It is very unlikely that the option will be taken up. Such non-commercial programming needs to be subsidised or cross-subsidised and is unlikely to survive otherwise. The experience of public radio and concern about public television underline this need. Thus market driven localism and community programming is self-defeating.

Market structure

The establishment of a particular market structure lies at the heart of policy development for pay TV and the desirable amount of regulation for that structure. The Committee's approach to market structure was influenced by three factors:

- increasing diversity of programming, both commercial and non-commercial;
- promoting diversity of ownership; and
- ensuring the commercial viability of pay TV.

In view of these, the Committee has recommended that the market structure for pay television in Australia contain the following three elements:

- multi-channel systems;
- a large number of markets based on present broadcasting areas with more than one market for each capital city; and
- exclusive franchises for each market.

It could be said that these recommendations will create "local monopolies". The monopoly argument is exaggerated. If introduced pay TV would be in competition with broadcast television and the VCR. The substitutes are not perfect but, particularly with the VCR and the pay TV movie channel, are sufficiently close to restrain the abuse of alleged monopoly power.

Interestingly, the Federal Communications Commission (FCC) in the USA uses the existence of broadcast television in its equation of effective competition. The FCC has decreed that where there is such competition there is no need for rate regulation of pay TV.

There is also the public benefit test of exclusivity. Given the characteristics of Australian industry (competition among the few), the view that the small size of the Australian market may not support more than two operators, the increase in programme diversity, and the existence of substitutes for pay TV, the Committee concludes that there would be net public benefit from exclusive franchises.