



Australia

OZ ICT Bulletin

Duncan Archibald
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Welcome To the Australian ICT Bulletin July 2006

This monthly publication contains useful business intelligence on the Australian Information and Communications Technology market.

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Telstra's Migration to 3G Leaves Doubt About CDMA Market

Telstra plans to build out a 3G network based on UMTS at 850MHz. The rollout, which is not planned to be finished until 2008, will see all of Telstra's CDMA clients rolled over to the new UMTS network, and Telstra will ultimately switch off the CDMA network. The closure of Telstra's CDMA network leaves serious doubt about the future of CDMA technologies in Australia.

Telstra's 3G network, for which the contract has been awarded to Ericsson, will replace its existing CDMA networks (EV-DO and 1X) which at present have coverage over 98 percent of Australia. As imaginable, the construction and integration contract is a big one – worth about AU\$1 Billion.

Telstra's move to build a new network is based on commercial decisions, but it begs the question as why would Telstra build another network when the present CDMA networks handle 3G fine and have plenty of headroom in terms of accommodating future technologies. At present, Telstra also wholesales its CDMA to its competitors who resell to their client base.

Once built, Telstra will run both networks concurrently for a testing period. It is our understanding that the CDMA networks will be shut down at the point when the UMTS 850MHz network is providing an equivalent or better service to the existing CDMA networks.

Once Telstra's new 3G network is up and running, vendors of CDMA technology will be redundant in the local market, potentially making Australia one of the few non-CDMA friendly continents in the world.

One alternative for CDMA vendors is to build their own network in Australia. There is a huge client base of end-users presently using

CDMA technologies, to which the new network could sell its network to.

One potential problem could be the lack of spectrum in the 800-850 space. It is our understanding that AAPT (owned by Telecom New Zealand) is sitting on extra capacity and may be predisposed to selling it, for the right price.

Other issues include the Federal Government's AU\$1 Billion fund called Broadband Connect to connect up all of rural Australia. Some of this money could be allocated to providing a roll out of an additional CDMA network to replace Telstra's redundant network.

We argue that in order to have robust competition in the broadband market, Australian consumers should have access to two different technology-based networks in order to stimulate competition in the local market.

Summary on Broadband Connect

Last August (2005), the Australian government announced its *Connect Australia* program. This \$1.1 billion initiative combined with a \$2 billion *Communications Fund* amounts to the largest regional telecommunications assistance program in Australia's history. This size and scope of this program recognizes the increasing importance and growing demand for broadband services that are both affordable and reliable. *Connect Australia* is intended to "rollout affordable broadband to people living in regional, rural, and remote areas, extend mobile phone coverage, build new regional communications networks and set up vital telecommunications services for remote Indigenous communities." As part of this general program, *Broadband Connect* sets aside \$878 million to provide all Australians

with affordable broadband platforms and services including ADSL, cable, wireless, and satellite over the next four years. It is estimated that 1.6 million premises in regional, rural, and remote Australia will benefit from *Broadband Connect*. Furthermore, by 2009 national broadband penetration rates are expected to reach 55 percent. It is designed to expand the earlier HiBIS (Higher Bandwidth Incentive Scheme) and will also incorporate the *Metropolitan Broadband Connect* program.

The following website provides further information:
http://www.dcita.gov.au/tel/connect_australia

Update on the Australian telecommunications industry

Many local analysts are expecting that Australia's \$33 billion telecommunications market is set to experience a downturn. According to some analysts, growth in telecommunications sales is expected to decline by 0.4 percent in the financial year, 2006-07 and a further 0.8 percent in the financial year 2007-08. Telstra, which is still 51.8 percent owned by the Australian government, is forecasting a compound annual growth of 3 percent over the next five years.

There are severe price pressures in all segments at present. The number of fixed-line telephone connections is predicted to fall from 10.12 million to 9.82 million over the next few years and there are widespread discounts in the mobile market. Broadband operators are finding themselves engaging in price wars as they attempt to increase their customer base.

Australia set to reform its copyright laws

In order to keep pace with developments in technology, the Australian government is introducing changes to its copyright regime. It is believed that the changes will provide stricter measures against copyright piracy.

Under these new reforms:

- Consumers will be able to record most television and radio programs to view and listen to one at a later time but will not be permitted to sell or hire a recording.
- A legitimately purchased copy of some categories of copyright material (excludes DVDs and computer games) can be transferred into a different format, allowing individuals to store their music on MP3 players or iPods. In two years time, after reviewing the implementation of this change, the Australian government may allow individuals to copy audio-visual material such as DVDs that they have purchased to other devices.
- Libraries, schools, universities and museums are permitted to use copyright materials for non-commercial purposes.
- People with disabilities will be able to utilize copyright material for non-commercial purposes.
- Copyright material can be used for parody or satire.
- The legislative cap on the copyright license fees paid by radio broadcasters and sound recording owners will be removed enabling them to freely negotiate a market rate.
- The police will be able to issue

on-the spot fines and access and recover profits made by copyright pirates.

- Copyright owners and prosecutors will be able to prove their ownership and subsistence of copyright more easily which in turn will allow for easier establishment of copyright piracy.
- The court has been given additional power to award larger penalties to participants in Internet piracy.
- It will be an offense for a Pay TV subscriber to distribute a subscription broadcast to premises other than the ones that have been paid for.
- It will be easier for Australian Customs to seize an imported article containing false trade description without a warrant.

Australian Government's Smartcard project Creates Many Opportunities

The Australian government's AU\$1.1 billion smartcard project aimed at streamlining the distribution of annual Medicare/healthcare payments is generating significant interest from the business community.

Australian telecommunications giant, Telstra is seeking to be the lead technology provider for this huge project. Not surprisingly, it views itself in an ideal position to take on this role as it owns a majority of the country's communication network, and has its own IT services subsidiary, KAZ Technology Services and controls an electronic payments and devices company Keycorp. Australia's main banks have also been involved in discussions with the government in relation to providing the core infrastructure to support the smartcard.

In an initial analysis of the viability of the project, consulting firm KPMG recommended the project proceed because it could save the government AU\$1.6 billion to AU\$3 billion over ten years by reducing fraud. The project consists of a number of key components such as internet protocol network, security, access devices, IT services and the smartcard themselves. Therefore, its success will depend on a collaborative approach by a number of companies. Government officials have indicated a preference for a fee-per-transaction service but a tender is yet to be issued.

ACMA Industry Code on Internet Spam

The Australian Communications and Media Authority (ACMA) has registered a code of practice for ISPs and email providers in an effort to counter the growing mass of Internet spam.

The Internet Industry Spam Code was drafted by the Internet Industry Association of Australia (www.ii.net.au) and comes into effect in July 2006. The code regulates the operations of ISPs and email service providers (ESPs) to ensure that they operate in a manner that minimizes the amount of spam circulating in cyberspace. There is a noticeable shift from attacking the origins of the spam to controlling the distribution of spam at the ISP/ESP end.

The Code applies to the approximately 690 ISPs operating in Australia and the multinational ESPs including AOL, Yahoo, and Hotmail.

The principal obligations that the Code places on local ISPs/ESPs are:

- Provision of spam filtering options to customers.
- Informing customers of what filtering the ISP/ESP conducts on clients' mail from their own servers.
- Provision of information to customers on how to report and deal with spam.
- Ensure that their networks are not used for spamming and inform clients of the same.
- Compliance with all law enforcement agencies who are investigating spam activity.

Crack Down on Local Telemarketing

The Australian government has agreed to implement a national do not call register in order to control the activities of local telemarketing services. The Register, based on models already implemented in England and the U.S., will come into effect in early 2007, and is designed to address complaints by consumers about the increased volume of unsolicited telemarketing campaigns.

Once the Register is put into place, telemarketers will need to put into place a register of telephone numbers that they are not permitted to call. The Register will also be required to be updated in a timely fashion.

The Register will apply to all telemarketing companies operating in Australia, as well as overseas companies who are acting on behalf of Australian companies.

Exemptions to this may apply to:

- Charitable organizations and religious groups
- Companies who have an existing business relationship with the consumer or business.

Any individual or small business can opt not to receive unsolicited telemarketing calls. Once a telephone number has been put on the register, telemarketers will be prohibited from contacting it.

Those companies found in breach of the scheme could be fined upward of US\$150,000.

Government to Fund Internet Security Project for Households

The Australian Minister for Communications, IT and the Arts recently announced the "single biggest commitment to protecting families online in the history of the Internet in Australia." The Government is developing a \$116.6 million National Filter Scheme intended to protect home and public computers from offensive material, including pornography. With the aid of Australia's Internet safety advisory body, NetAlert (www.netalert.net.au), it will conduct the accreditation process for suitable filters. The Government wants to implement the program by the end of the year, and will pay subsidies directly to the filter providing companies according to their market share. The best method of distribution (for example downloads, mail-out CDs, or direct access from government's homepage) is still being determined, but a phone support system has been deemed a necessary part of the package offering. The filters will be made available to all home users, and other public institutions, such as libraries, may be required to install them.

As of now, no particular companies have been chosen to implement this initiative. The scale and scope of the project indicate that opportunities exist for US firms who provide

filtering and other related products to partner with the government in this undertaking in the next 6-12 months.

over 50 percent of all subscribers had been converted to digital services, and it is expected that full conversion will occur sometime later in 2006.

Free-To-Air Goes Head on With Pay TV

According to local analyst, Paul Budde, in the period from 2001 to 2005 viewing of free-to-air television fell by 11 percent. In the same period TV viewing overall increased by 8.5 percent, predominately driven by the uptake in Pay TV services.

Pay TV Subscriber Numbers and Revenue

Year	Subscribers	Revenue (Million AU\$)
1997	650,000	230
1998	800,000	385
1999	1,060,000	488
2000	1,270,000	883
2001	1,460,000	1,162
2002	1,440,000	1,044
2003	1,490,000	980
2004	1,600,000	1,190
2005 (e)	1,720,000	1,524
2006 (e)	1,850,000	1,775

(e) estimate

Source: Paul Budde Communications
Australia

Free-to-air is viewed by 98 percent of the Australian population and is installed in 7.5 million homes. By April 2005 Pay TV was installed in 24 percent of Australian homes. By the same date

Big Five Projector Vendors

- Acer 11.9%
- BenQ 11.7%
- NEC 11.3%
- Panasonic 9.7%
- Epson 9.7%

Source: IDC

Fresh Data on Mobile Use in Australia

According to a study by research group AT Kearney, 52 percent of Australian cell phone users expect to make most of their calls on mobiles rather than over land lines by 2007. Approximately 55 percent of mobile users have purchased multimedia phones that have capabilities for accessing email and browsing websites. The market for cell phones with built-in cameras has grown by 156 percent (compared with 71 percent globally). Thirty percent of users with multimedia phones are now regularly sending pictures, photos, or video. SMS is a widely used service in Australia with 85 percent of multimedia phone users regularly sending messages.

Government Details New Media Road Map

The Federal Government has recently announced an overhaul of its media regulations with regards to cross media ownership and outlining Australia's journey into the world of digital TV.

Broadly the major points of the new proposals are:

- Call for the relaxation of the cross media and foreign ownership laws. These would be subject to a diversity test of five owners in the metropolitan markets, and four in the regional markets, as well as approval from the competition regulator (Australian Competition & Consumer Commission).
- Imposition of local content conditions on local TV and radio in regional markets.
- Allow incumbent TV networks to provide separate programming on one high definition digital channel and provide another multi-channel in standard definition from 2009.

Comment

The Government has removed the restrictions that have prevented owners of print media buying into broadcasting assets. This change is also open to foreign media companies who may want to buy local media assets.

Observers have already suggested that the latter is unlikely given the overvalued price of the stocks. Additionally, non-traditional media services (Internet-based media) are quickly gaining traction with consumers and make a more attractive investment proposition.

According to research group OzTam, commercial-free TV has declined at 2.3 percent annually since 2001, equating to nine percent in absolute terms. Additionally, the broadband uptake rate in 2002 was four percent, currently it is about 29 percent. Based on these figures, and the fact that broadband prices are falling each month, it is predicted that broadband uptake will show robust growth over the next few years. Traditional media is in for real battle against Internet-based content services in a world of big piped broadband, and with such, we feel that it is unlikely that there will be much interest from foreign interests to buy into local free-to-air or pay TV assets.

On the side of multi-channeling, the government has said that TV viewers will be offered dozens of new digital channels within the next three years. I agree with some local commentators who suggest that the talk is louder than the reality, in that is highly unlikely that all these channels will actually come to see the light of day. Australia has a population of only 20 million, and any new channels will have to be put together with a

strong business case in order to make them commercially viable. Content is expensive to generate, and I am not sure Australia has the numbers of viewers to accommodate “dozens of channels”. It may be that the political largesse is overshadowing the commercial viability of digital multi-channeling in Australia.

I believe that once Australia can provide a high-end broadband infrastructure capability to the majority of Australians, Internet-based content providers will provide enormous headaches to more traditional broadcast mediums (and these include free-to-air, Pay TV and radio).

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Location: Sydney Exhibition Centre

Organizers: HISA

Frequency: Annual

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Web site: www.hic.org.au

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Fax: 61 7 3319 6023
Email: david.levi@e-sentinel.com

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Cell Phone: 0418 489 717
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Bryana Nicholls, BD Manager
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Reseller of ebase from UK – data collection and validation tools. Company is looking for similar products.

If you have products that may be of interest to these local companies, we would be pleased to introduce you. If you prefer to contact them directly, please include a cc. to Duncan.Archibald@mail.doc.gov.

Call Center Service Providers and Call Center Association

Australian Telemarketing and Call Centre Association Inc

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