

# DMG RADIO AUSTRALIA PARTNERSHIP

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## SUBMISSION TO THE PRODUCTIVITY COMMISSION

### PUBLIC INQUIRY INTO BROADCASTING

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#### Introduction

- 1 This submission is made by DMG Radio Australia Partnership (“**DMG**”).
  - 2 DMG is a limited partnership registered in New South Wales.
  - 3 DMG is a wholly owned subsidiary of Daily Mail & General Trust plc (“**DMGT**”).
  - 4 DMGT and its majority shareholder, Rothermere Continuation Limited (“**Rothermere**”), are the ultimate parent companies of DMG.
  - 5 DMGT is incorporated and listed in the UK. Rothermere is incorporated in Bermuda.
  - 6 DMGT and its subsidiaries (“**DMGT Group**”) is an international media group with market capitalisation of approximately A\$7 billion. It has significant newspaper and commercial television and radio interests in the UK and parts of Europe and, since 1996, in Australia. It also has material interests in publishing, exhibitions and new media in the UK and parts of Europe, and also in the US, Australia, New Zealand and parts of Asia. DMGT Group is equally involved in capital city and regional markets in most of these areas of media.
  - 7 DMGT Group is committed to the ongoing operation of its various media interests at world’s best standards. It has an established track record as a long term operator (and not as a short term trader) of its media interests and is committed to maintain and expand the local focus and to maintain the independence of those interests.
  - 8 DMGT decided, in 1996, that it would seek to become a major participant in the commercial radio broadcasting industry in Australia. DMG therefore intends to make a substantial investment in commercial radio broadcasting licences (“**commercial licences**”) in capital city and regional markets in Australia.
  - 9 DMG Radio Investments Pty Ltd (“**DMGRI**”) is a wholly owned subsidiary of DMG.
  - 10 DMGRI is incorporated in Australia.
  - 11 Festival City Broadcasters Pty Ltd (“**FCB**”) and DMG Regional Radio Pty Ltd (“**DMGRR**”) are wholly owned subsidiaries of DMGRI. They were purchased in 1996.
  - 12 FCB and DMGRR are incorporated in Australia.
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13 FCB now owns and operates commercial radio broadcasting station (“**commercial station**”) 5AA Adelaide and operates narrowcast radio broadcasting station (“**narrowcast station**”) 5TAB Adelaide.

14 DMGRR and its wholly owned subsidiaries own and operate the following commercial stations:

#### **New South Wales**

- ♦ Albury 2AY
- ♦ Albury B104.9
- ♦ Coffs Harbour 2CS
- ♦ Coffs Harbour HOT FM
- ♦ Griffith 2RG
- ♦ Griffith 99.7 STAR FM
- ♦ Orange 2GZ
- ♦ Orange FM 105.9
- ♦ Port Macquarie 2MC
- ♦ Port Macquarie ROX FM
- ♦ Wagga Wagga 2WG
- ♦ Wagga Wagga 93.1 STAR FM
- ♦ Young 2LF
- ♦ Young 93.9 STAR FM

#### **Victoria**

- ♦ Bendigo 3BO FM
- ♦ Bendigo 3CV
- ♦ Mildura 3MA
- ♦ Mildura 99.5 STAR FM

#### **Queensland**

- ♦ Cairns 4CA FM
- ♦ Cairns HOT FM
- ♦ Charters Towers 4GC
- ♦ Charters Towers HOT FM
- ♦ Emerald 4HI
- ♦ Emerald HOT FM
- ♦ Gladstone 4CC
- ♦ Mackay 4MK FM
- ♦ Mackay HOT FM
- ♦ Mareeba 4AM

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- ♦ Mareeba           HOT FM
- ♦ Mount Isa        4LM
- ♦ Mount Isa        HOT FM
- 
- ♦ Roma             4ZR
- ♦ Roma             HOT FM
- ♦ Townsville      4TO FM
- ♦ Townsville      HOT FM

#### **South Australia**

- ♦ Mount Gambier   5SE
- ♦ Mount Gambier   96.1 STAR FM

#### **Western Australia**

- ♦ Albany           6VA
- ♦ Albany           HOT FM
- ♦ Bridgetown      6BY
- ♦ Bridgetown      HOT FM
- ♦ Bunbury         6TZ
- ♦ Bunbury         HOT FM
- ♦ Esperance       6SE
- ♦ Esperance       HOT FM
- ♦ Kalgoorlie      6KG
- ♦ Kalgoorlie      HOT FM
- ♦ Katanning       6WB
- ♦ Katanning       HOT FM
- ♦ Merredin        6MD
- ♦ Merredin        HOT FM
- ♦ Narrogin        6NA
- ♦ Narrogin        HOT FM
- ♦ Northam         6AM
- ♦ Northam         HOT FM

- 15     DMGRR, through two of its subsidiaries, also owns licences in Dubbo and Rockhampton, and commercial stations will go to air, under those licences, within the next 12 months.
- 16     DMG and its subsidiaries therefore now own and operate 55 commercial stations and will soon own and operate at least two further commercial stations, in regional markets in Australia. DMG's investment in all of those regional markets exceeds A\$200 million.

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- 17 DMG and its subsidiaries now own and operate only one commercial station and operate one narrowcast station in capital cities in Australia. That is because, with only a couple of minor exceptions, commercial stations, particularly on the FM band, have not been available for acquisition, in capital cities in Australia, since 1996 (when DMGT decided that it would seek to become a major participant in the commercial radio broadcasting industry in Australia). No new commercial licences have been issued in capital cities since 1979 (although some conversions from AM to FM occurred around 1989).
- 18 DMG and its subsidiaries therefore now own and operate 56 commercial stations and one narrowcast station, and will soon own and operate at least two further commercial stations, throughout Australia.
- 19 DMG intends to be a major participant at the forthcoming auctions of commercial licences, on the FM band, in capital cities in Australia and, in that way, to increase its investment in commercial stations in capital cities in Australia.
- 20 DMG would like to bid at the forthcoming auctions for two commercial licences in each of Sydney, Melbourne, Brisbane and Perth, and at least one commercial licence (because it already owns another) in Adelaide. DMG would also like to bid at the forthcoming auctions for two commercial licences in each of Gold Coast, Sunshine Coast and Gosford. All of these bids would be for commercial licences on the FM band. DMG's only constraint in making such bids is the number of commercial licences to be made available in each of those cities. DMG believes that the maximum possible number of commercial licences should be made available in each of those cities and, if that happens, DMG will be able to bid for the numbers of licences set out above.
- 21 This submission addresses some of the questions identified in the issues paper prepared by the Productivity Commission and issued on 30 March 1999. This submission does not purport to address all of those questions or to comment on all of the issues relevant to the public inquiry. Rather, this submission focuses on those aspects of radio broadcasting which are most important today. Where appropriate this submission will identify relevant issues of efficiency, effectiveness and competitiveness.

### Executive Summary

- 22 In accordance with the existing objects and criteria set out in the Broadcasting Services Act 1992 (“Act”) and consistent with the established and published plans of the Australian Broadcasting Authority (“ABA”), new capital city commercial licences should be issued as soon as possible. To do so will increase competition and diversity, and will lead to more choice, all of which is in the best interests of the public. At the same time it will not lead to any reduction in the quality of programs or the investment in talent.
- 23 Relaxation of the cross media rules, insofar as they relate to commercial radio licences in regional areas, should not occur.

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- 24 In accordance with the existing provisions of the Act, there should be no restrictions on the foreign ownership and/or control of commercial licences.
- 25 Demand for new commercial licences on the FM band in each of the capital cities and, in particular, in Sydney (including Gosford), Melbourne and Brisbane (including Gold Coast and Sunshine Coast), is expected to be exceptionally strong.
- 26 The maximum possible number of new commercial licences on the FM band should be made available in each of the capital cities including, in particular, Sydney (including Gosford), Melbourne and Brisbane (including Gold Coast and Sunshine Coast).
- 27 Existing television stations which use Band II are still subject to the Band II clearance policy which was agreed more than ten years ago. Under that policy, television stations which use Band II are required to vacate that part of the band used for radio as and when it is demonstrated that there is radio demand for the frequencies they use (or for other frequencies which are blocked as a result of the frequencies used by the television stations). An example of one station which is still to comply with the policy and continues to use Band II is NBN3 Newcastle. These stations should be encouraged and, if necessary, directed, to transfer their services to other frequency bands. The existing situation is not an efficient allocation of the radiofrequency spectrum.
- 28 The planning process which is underway in each of the capital cities must consider an appropriate mix of national, commercial and community stations. That process should recognise, however, the overwhelming percentage of the public who listen to commercial stations (71%), notwithstanding that commercial stations represent only a small percentage (28%) of the total number of national, commercial and community stations. This justifies significant weight being given to the need for new commercial licences and less weight being given to any need for new community licences. To take any other approach would be to distort the obvious and long established preferences of the public.
- 29 Meaningful diversity will not be achieved through the issue of many new community licences and narrowcast licences, but only through the issue of many new commercial licences (because the vast majority of the public will listen only to commercial stations and, as a result, diversity within the community and narrowcast sector will mean nothing to them).
- 30 New commercial stations will not target demographics identical to those targeted by existing commercial stations. Moreover, even if new commercial stations target demographics similar to those targeted by existing commercial stations, they will not do so in the same way and each service will adopt a different format or style and will find new or innovative ways to connect with the target audience. At the end of the day, the station to maintain a particular format or style will be the station that better identifies the demands of listeners for that format or style. Other stations will then move to different formats or styles. As a result, more commercial stations will mean more choice and will add to high quality and innovative programming, and this will mean an increase in diversity for the vast majority of the public.

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- 31 The “two-to-a-market” rule should be retained. It must not be lifted. To do so would be disastrous. It could only serve to increase the already extraordinary concentration of the market in the capital cities and further increase the substantial barriers to entry arising from the economies of scale associated with the existing national duopoly networks. Incentives for diversity and for investment in better services and new technology would completely disappear. The public would be the losers.
- 32 There has been some speculation about the value in Australia of the fixed format system which is used in part in the UK. DMG believes that that system has no value in Australia. Fixed formats therefore should not be introduced as part of the process of planning for new radio licences in the capital cities in Australia. To impose fixed formats would be contrary to the best interests of the public and the broadcasting system in Australia and contrary to the provisions of the Act. Fixed formats are not an efficient allocation of the radiofrequency spectrum. They interfere with competitive market forces. Those market forces give the best assurance of diversity.
- 33 Diversity is achieved through a mixture of national, commercial and community services. We have enough national and community services. We must now respond to overwhelming public listenership through the issue of more new free format commercial licences. The public will not appreciate having their broadcasting system undermined by fixed formats.
- 34 Fixed formats would protect the existing owners of FM commercial stations in capital cities. Fixed formats would not achieve any other purpose and would not be in the best interests of any sections of the public.
- 35 Convergence of different forms of media may occur in the future. However, it has not occurred yet. It is too early and arbitrary to attempt to determine the level and type of regulation appropriate to a converged industry. Convergence should be monitored and, at a certain time, it may be appropriate to design regulations for a converged industry. That time is not now. It would be wrong to attempt to regulate something which is unknown.
- 36 DMG supports the development of digital radio. Due to the very long lead time, however, the development of digital radio should not be allowed to interfere with the continuing process of analogue planning.
- 37 In summary, therefore, the radiofrequency spectrum will only be allocated and thereupon used in a manner which is efficient, effective and competitive if:
- (a) new FM commercial licences are issued in accordance with the obvious and long established preferences of the public, the overwhelming majority of whom listen to and support free format commercial licences;
  - (b) new FM commercial licences are issued in accordance with the demonstrated capacity of the commercial radio industry to target different demographics and to develop different

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formats and styles, all of which are listened to and supported by significant sections of the public and which therefore add to meaningful diversity;

- (c) as many new FM commercial licences as practicable (in accordance with spectrum availability and technical requirements) are issued as soon as possible in each of the capital cities;
- (d) relaxation of the cross media rules, insofar as they relate to commercial licences in regional areas, does not occur;
- (e) restrictions on the foreign ownership and/or control of commercial licences are not introduced;
- (f) the "two-to-a-market" rule is retained and is not lifted;
- (g) no attempt is made, at this point, to determine the level and type of regulation of what might in the future become a converged media industry; and
- (h) the development of digital radio does not slow down the analogue planning process.

38 The rest of this submission outlines, in brief, some of the arguments in support of the above conclusions. DMG is prepared and willing to elaborate those arguments in its presentation to the Productivity Commission.

#### Capital Cities

39 The existing market in relation to commercial licences in capital cities is artificial. The last recorded sales of commercial licences in capital cities were (and current market valuations of such licences are) at multiples of earnings which are exceptionally high relative to the standards set by the market in earlier years.

40 The degree of concentration of ownership of commercial licences in capital cities is much greater today than at any time in the past. In particular, commercial licences on the FM band in Sydney, Melbourne, Brisbane, Perth and Adelaide are owned by only two companies. That degree of concentration is dangerous. It is not in the best interests of the public. It puts diversity at risk.

41 These two companies have enjoyed absolute dominance over the past few years, in terms of audience penetration, revenues and profits. That is because they have had virtually no competition. Evidence suggests that these companies together attract much more than 60 per cent of all radio listeners under 40 years' of age in capital cities. They take more than 65 per cent of total radio advertising revenues in those capital cities. The combined profits of those companies represent 95 per cent of the combined profits of all commercial stations in capital cities. This degree of dominance is unprecedented in the radio industry in the past and is unprecedented in any other form of media in Australia. It is the product of one simple fact. There are not enough FM commercial licences in the capital cities.

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42 The following table is instructive:

INDICATOR	\$ MILLIONS	PERCENTAGE CHANGE
Total revenue of all commercial stations in capital cities 1997/98	\$406.8	9.2% increase over previous year
Total revenue of all FM commercial stations in capital cities 1997/98	\$267.8	10.2% increase over previous year
Total profits of all commercial stations in capital cities 1997/98	\$71.6	41.9% increase over previous year
Total profits of all FM commercial stations in capital cities 1997/98	\$67.8	25.4% increase over previous year

A similar picture is painted in respect of all years back as far as 1993/94. Annual increases in revenue over that time have ranged between 2.2% and 9.3% for all commercial stations and between 3.1% and 14.7% for all FM commercial stations. Profits over that time have increased on an annual basis between 18.3% and 67.3% for all commercial stations and between 19.6% and 49.0% for all FM commercial stations. Percentage increases are not dissimilar when individual market breakdowns are considered. This growth phenomenon is fantastic. Two companies have enjoyed almost the entire benefit of that growth because of the failure to issue more commercial licences for so many years.

43 Demand for FM commercial licences in capital cities is far in excess of supply. The market is a long way from equilibrium. The profits enjoyed by existing owners are therefore protected in the short term. Those profits are at an all time high. This situation is the product of a planning process which is only half completed and with capital cities lagging behind regional areas.. The market in capital cities will continue to be artificial and demand will continue to exceed supply, and diversity and the best interests of the public will continue to be threatened, until the other half of the planning process is completed.

44 The existing planning process is the result of a consensus approach taken by the Minister of Communications and the Arts and the Federal Government, together with the industry, in 1992. That approach is enshrined in the Act. Two steps were agreed. Those two steps were (and continue to be) as follows:

- (a) a company could own two commercial licences in any licence area (thereby permitting savings and enhancing profits through efficiencies and economies of scale); and



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- (b) new commercial licences would be issued and competition would therefore be enhanced in each licence area (after existing companies consolidated their positions through the ownership of two licences in the licence area).

These two steps were agreed by the industry. It was a consensus approach. The plan was to enable existing owners to consolidate their positions and, after consolidation, to expose them to new competition. To take one of those steps, without the other, would create imbalance and disequilibrium in the market. As a basic economic principle, that is obvious.

- 45 The first of these steps has occurred. The two companies referred to above have consolidated their positions (and have been dominant for more than five years). The second step has not occurred. Potential investors are still waiting. That step was planned to occur as soon as the market was consolidated and, in all events, no later than 1995/96. It is already four years late. Current indications suggest that at least another year might be lost. This appalling situation explains the artificial state of the market today. Sale multiples, revenues and profits will all remain at unprecedented high levels until new licences are issued. Only then will the market cease to be artificial. Even more importantly, moreover, only then will the best interests of the public be served (through more competition and more diversity).
- 46 Strong competition, but leaving adequate profits intact, is the best way to stimulate better services and new technology. The issue of new licences will therefore achieve that result. Again that is in the best interests of the public. The two existing companies have no real incentive to invest in best services and new technology today. They will have that incentive when it becomes necessary for them to create a competitive advantage over new entrants. And as new entrants fight that position, through their own investment in better services and new technology, the winners once again will be the public.
- 47 The two existing companies have suggested that more competition will lead to a reduction in the amount of their investment in local programs and talent. That is wrong. Even with more competitors to take revenues and profits, the two existing companies will be able to continue the amount of their investment in local programs and talent, and still generate more than adequate profits. Investment in local programs and talent will not be shaved. To the contrary, in the face of more competitors, the two existing companies, as well as the new competitors, will aim to secure and increase their ratings by being attractive to large audiences and, in turn, those audiences will demand local programs and talent. The imperative to invest in those things will be more, not less, upon the advent of increased competition. Once again the winners will be the public.
- 48 To clear all television stations from Band II is consistent with international precedent and with the stated objectives of the Government and the ABA. The proliferation of new commercial radio licences, in the US and Europe, for example, has occurred on the FM band. Those countries have recognised the appropriateness of allocating frequencies on the FM band which could potentially be used for high power services, as commercial radio licences. There is no reason for the absence of similar recognition in Australia. Contrary to international precedent, television stations many decades ago were permitted to operate on VHF in Australia. That decision is now known to have

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been inappropriate. It was out of step with international practice. The Government and the ABA have worked towards the rectification of these problems but they must now be pursued further, with renewed vigour, if adequate frequencies (spectrum) are to be available for new licences in capital cities. The inappropriate use of Band II for television licences should not be allowed to interfere with the very significant demand which now exists for new FM commercial licences in capital cities.

#### **Two-To-A-Market Rule**

- 49 It has been suggested that the “two-to-a-market” rule, which was introduced as the first of the two steps of the planning process in 1992, could be lifted up to “three-to-a-market” or even “four-to-a-market”. That would be disastrous. It could only serve to increase the already extraordinary concentration of the market and further increase the substantial barriers to entry arising from the economies of scale associated with the existing national duopoly networks. These increases in concentration and barriers to entry (and concomitant reduction in competition) would lead to even greater multiples and profits for the “last companies left standing”. All of the problems which now exist would be accentuated. The boom would be, once again, artificially buoyed. Incentives for diversity and for investment in better services and new technology would completely disappear. The public would be the losers.
- 50 Although similar rules have been lifted in the US, for example, that can be explained by the thousands (literally) of licences which exist in the US, thereby substantially reducing their scarcity and substantially increasing competition. That situation does not exist now and probably will never exist in Australia. There are substantially greater numbers of commercial stations in markets in the US compared to markets of the same size in Australia.
- 51 The importance of issuing new licences, not long after the introduction of the “two-to-a-market” rule, was recognised by all concerned when the consensus approach was taken in 1992. DMG continues to support the two steps of the consensus approach. It was clear, even then, that the introduction of the “two-to-a-market” rule, without the issue of new licences, would create an artificial market. To lift the “two-to-a-market” rule is obviously contrary to the consensus approach and contrary to the planning process enshrined in the Act. It would change the face of the industry in Australia. Pluralism and diversity would become things of the past. The public would not be served.

#### **Cross Media Rules**

- 52 Relaxation of the cross media rules in regional areas would have significant consequences for plurality and diversity in those areas.
- 53 Some regional areas have one local television station and one local newspaper (which may only be published once or twice per week). Those areas also have one or two local commercial radio stations. Diversity in these areas is therefore provided by a combination of these three limited media services.

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- 54 Capital city newspapers will often be circulated in these regional areas. Occasionally capital city television stations may also be received. These capital city services, however, are not uniform in all regional areas and, moreover, they do not contribute to diversity of local news and local opinion which is critical in those areas.
- 55 Relaxation of the cross media rules in regional areas would inevitably lead to the merger and consolidation of local newspapers, television stations and radio stations. The local television stations might acquire the local newspaper or the local radio stations. The local newspaper, with its news and current affairs capabilities, might acquire the local television stations or local radio stations. The possible combinations are endless. At the end of the day, however, with the relaxation of cross media rules in these areas, local news and local opinion could be reduced in many cases to one source only. Regional areas may no longer have two or three sources of local news and local opinion. Such areas would lose that plurality and diversity. Many regional areas could end up with only one ultimate source of local news and local opinion. That would be contrary to the best interests of the public in those areas.
- 56 Relaxation of cross media rules might be appropriate in very large markets where most media is national or international and where local media is very limited. However, that situation does not seem to exist here. Most of our media is local. Regulators should not speculate on the future direction of the market

### **Foreign Ownership and Control**

- 57 The Act does not contain any restrictions on the foreign ownership and control of commercial radio licences. There are overwhelming arguments in support of that position. Those arguments include:
- (a) the pluralism of ownership of commercial radio licences which is regarded, quite properly, as a cornerstone of any responsible media policy (and, particularly, given the exceptional concentration in today's capital city markets, participation by foreign owners is imperative);
  - (b) the unique character of the commercial radio industry as the only form of electronic media which relies, almost entirely, on live-to-air broadcasts (which necessarily entails Australian programming, Australian announcers and Australian content) as opposed to, for example, commercial television which, to the same extent, does not rely on live-to-air broadcasts (and which, therefore, over the years, has reflected much more foreign programming, foreign presenters and foreign content); and
  - (c) the general economic benefits which flow from foreign investment (including, in particular, the benefits to the balance of payments).
- 58 Moreover, the owners of many of the commercial licences in capital cities, in the existing market, are foreign controlled (or at least foreign persons under the Foreign Acquisitions and Takeovers

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Act 1975) and it would be inappropriate, economically and politically, to grandfather those positions and, at the same time, prohibit the entry of other foreign owners (particularly when some of those other owners, such as DMG have, to date, taken a position in the existing market in legitimate expectation of the issue of new commercial licences in capital cities and in legitimate expectation of their eligibility to acquire those licences).

- 59 The absence of restrictions on foreign ownership of commercial radio licences is almost the only way to ensure that the exceptional concentration in the existing market for commercial radio licences in the capital cities can be reduced and, as a result, diversity of opinion (as well as competition) can be assured. That is because the investment required to acquire and thereupon operate new licences in the capital cities will be very significant and potential investors with the financial capacity to make that investment must include foreign investors.

#### **Fixed Formats**

- 60 DMG understands that the possible imposition of fixed formats for radio in capital cities may be considered by the Minister for Communications before new licences are issued in capital cities by the ABA. DMG does not agree with the imposition of fixed formats and believes that they would be contrary to the best interests of the public and the broadcasting system in Australia.
- 61 The best radio industry in the world is in Australia. Professional standards are high. Diversity has been achieved through a mixture of national, commercial and community services. Information supplied by AC Nielsen and the list of community formats provide proof of that diversity. DMG can supply that information if requested to the Productivity Commission. Australian audiences will not appreciate having their broadcasting system undermined by the importation of an inferior system.
- 62 The only beneficiaries of fixed formats will be the two existing owners of FM commercial licences in the capital cities. Fixed formats will protect them. They will not achieve any other purpose. One of those two owners recognises this itself and has recently made comments to the effect that more competition is good for listeners and advertisers.
- 63 Effective diversity is best achieved by more commercial licences with free formats. Additional commercial licences will not duplicate existing formats but will provide even greater effective diversity. This has been explained above.
- 64 Only 28% of the total number of radio stations in capital cities are commercial stations. The rest are national and community stations. Based on published figures, however, 71% of audiences in capital cities listen to commercial stations. It is therefore obvious that those audiences are underserved. They need more commercial stations. Any other conclusion is contrary to and ignores the established listening patterns of 71% of capital city audiences.
- 65 National stations and community stations contribute to the diversity of our broadcasting system. However, this is diversity for minority groups only. Mainstream Australia is not interested.

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Diversity for mainstream Australians can only be provided by the market forces which flow from additional commercial licences. Mainstream Australia will resent anything less.

- 66 Up to \$200 million in auction revenue will be lost if fixed formats are imposed. That is because fixed format licences will be unattractive to investors. Part of that revenue might otherwise have been available to enable the ABA to be adequately funded to meet the additional demands placed upon it in the digital and convergent era.
- 67 Investment decisions in respect of three of the five planning zones have now been made. Those investments were based on a process which has been implemented and enshrined in the Act. That process must be honoured. It does not include fixed formats. To treat planning in the first three zones (primarily regional areas) and planning in the final two zones (primarily capital cities) in a different way will distort past and future investment decisions and will not foster the efficient allocation of the radiofrequency spectrum.
- 68 Commercial licences in our existing broadcasting system are free format. Owners compete for targeted audiences and they adopt formats or styles to reach those audiences. Those formats or styles are based on the results of sophisticated research which is undertaken to determine the demands of the targeted audiences. For obvious economic reasons no two stations will target exactly the same audience and no two stations will adopt exactly the same format or style. It is correct that in the short term more than one station might target similar audiences and might therefore adopt similar formats or styles. In the long term, however, that position is not sustainable. One station wins and the other stations then target other audiences and adopt other formats or styles. This free market system has resulted in the creation of diverse formats or styles in the capital cities. Commercial stations in the capital cities, for example, range from adult contemporary music to hard rock music, from easy listening music to 50s and 60s music, from football and other sports to news and current affairs, from talkback to lifestyle programs and so on. More commercial licences with free formats will add to this diversity. In the short term some new owners might target audiences similar to those which are now targeted by existing owners. In the long term, however, once the market settles, they will target different audiences and will thereupon develop different formats or styles. This is in the best interests of the public.
- 69 We still need more diversity. But free format commercial licences are the only way to deliver that in a manner which respects the demands of the audiences.
- 70 Fixed format licences, on the other hand, are not research based. Owners do not undertake research to determine audience demands and then respond to those demands. Rather, with fixed format licences, programs are determined by reference to the format which is fixed and not by reference to the demands of audiences which will vary from time to time. Fixed format licences can only respond within very limited parameters. The format is like a straight jacket. Audience demands are not relevant and, as a result, research is not relevant (except within the very limited parameters). The public cannot be served by licences which are unable to respond to their changing demands.

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- 71 Fixed formats cannot enhance diversity in the long term for mainstream Australia. Only free formats can do that. That is because free format licences are based on audience research and therefore come from the top down. Fixed format licences, on the other hand, are always tied to the particular format and they therefore work from the bottom up. Worldwide experience demonstrates, without argument, that audiences are better served and their demands are met more often and more quickly if formats and styles are determined from the top down and not from the bottom up.

#### **New Markets**

- 72 It has been suggested in the media from time to time that there should be a completely new direction of media regulation. Some have argued that the markets have moved, or will move, to form one total market for communications and information technology. That market would comprise free-to-air television and radio, newspapers, cable and pay television, internet and other forms of information delivery through computer means and, generally, all other forms of telecommunications and information technology.
- 73 DMG accepts that one day the markets may move to that point. However, they have not yet done so and it is too early to determine, or even attempt to determine, where the markets will go (and when).
- 74 Only one thing is certain. The vast majority of average households in Australia devote most of their audience time to the mass media (being free-to-air television and radio, and mass circulation newspapers). For so long as that continues to be the case, media policy and regulation must address current issues, such as those identified above.
- 75 DMG does not dismiss the argument of media convergence. Quite the contrary. However, the extent of convergence should continue to be monitored and, only if (and when) the average household has similarly converged its avenues for the receipt of information, should media policy be revisited to take that into account.
- 76 Generally, it is impossible for businesses and governments to determine where the markets for information delivery will go over the next five, ten or more years. Whether existing individual markets will ever (and, if so, when) merge, or converge, is still an open question. It would be wrong to attempt to regulate something which is unknown. The priority must therefore be to address immediate problems and, although businesses and governments must not close their eyes to the future, this can best be achieved simply by ensuring that existing market conditions are fair and reasonable.
- 77 DMG believes that the next step for the commercial radio industry, after the issue of new licences in the capital cities, is to be ready for the introduction of digital radio. That issue will not be considered in detail in this submission. It should be noted, however, that digital radio will enable reception to be of improved quality as well as more robust. Digital technology will enable conventional and new forms of media, whether voice, data or vision, to be supplied to the public

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on a multitude of networks. It is therefore inevitable that the commercial radio industry will embrace digital radio at some point in the future.

- 78 It is impossible to determine, however, when that point might be. The required investment by owners of commercial licences is not significant in relative terms. That investment is not the cause of delay. New competition through the issue of new commercial licences in the capital cities will not make that investment any more burdensome for existing owners and therefore will not contribute to any further delay. There are many extraneous factors, however, which must still be addressed before digital radio can be embraced in a broad sense. Those issues include environmental concerns related to digital transmission, technical and engineering concerns related to the digital system which is preferred (different systems are being pursued for example in Europe, the United States and Japan) and the availability and cost of digital receivers to the public.
- 79 These issues should be considered as soon as practicable. DMG supports steps taken by the industry and the regulators to review these issues in a structured and efficient way. Until these issues are resolved, however, they should not be allowed to interfere in the planning of the analogue system and, therefore, in the issue of new licences in capital cities. The overriding priority of the regulators must be to address existing problems (the most serious of which is the scarcity of FM commercial licences in the capital cities).
- 80 DMG supports steps taken by the industry and the regulators in relation to digital radio, as noted above because, in its view, the commercial radio industry must embrace digital radio. It will otherwise be unable to compete effectively in an increasingly digital world of communications, entertainment and information. Having acknowledged that, however, it must be noted that projections for widespread consumer adoption of digital radio are very long term. Consumer adoption of digital radio is extremely slow in countries which have already developed a digital system. That is because the only receivers which are now available are for use in motor vehicles. Moreover, the cost of those receivers is many times higher than the cost of their analogue equivalents and the digital receivers have insufficient advantages to offset the higher cost. Current projections indicate that only 40 per cent of households would have one digital receiver even ten years after the introduction of digital radio (and even if the cost of the receivers falls substantially). This compares with the average household today which has between three and four analogue receivers. It will be a very long time before digital radio is an effective competitor with analogue services. It will therefore be a very long time before digital radio makes any significant inroads into mainstream Australia. This means that analogue services will continue for a long time to be more important to mainstream Australia. For these reasons the development of digital radio must not be permitted to interfere with or slow down the existing planning process for analogue services.