

RESPONSE TO THE PRODUCTIVITY COMMISSION'S OCTOBER 1999 DRAFT REPORT ON BROADCASTING

[1] This document provides observations on The Productivity Commission's proposals for changes to broadcasting regulations.

[2] It outlines how choice in radio listening is restricted by the proposals and addresses the inconsistencies in allocation of the various types of radio broadcasting licence. It also provides a suggested model for radio spectrum allocation.

Choice

[3] Whatever the resulting legislation that derives from the Productivity Commission's inquiry, it is important that the model arrived at for the regulation of frequency allocation provides for a wide variety of consumer choice.

[4] In non-electronic media, where supply is not restricted by a public resource (ie the frequency spectrum), the consumer is presented with a proliferation of choice. The publishing industry, while dominated by major players, allows for niche operators to exist as profitable enterprises. The reader can purchase Australian produced magazines on a wide variety of special interest topics. Legislative restrictions apply only in terms of content and barriers to entry relate entirely to the set-up costs of a new venture.

Of all music formats available, few are featured on Australian radio

[5] The same choice does not currently exist in the broadcast industry. Although numerous music formats exist, few are represented by existing Australian broadcasters. Of course, this relates to the limitations of the broadcast spectrum.

[6] To broadcast a proprietor must purchase a frequency from the government. If the frequencies made available are restricted too heavily then little consumer choice will be available. In the radio broadcasting sphere this would result in few available program formats, high profit margins and artificially high salaries and production costs. It could be argued that all three situations are demonstrated in the Australian metropolitan radio market, where there is little variety in music format and some of the highest radio salaries in the world.

The metropolitan markets can support more commercial radio

[7] This high salary aspect is the biggest counter-argument to existing players that new radio stations cannot be supported by the existing number of advertisers. The opportunities for key broadcasters to supplement their income with alleged "cash for comment", as currently under investigation by the ABA, is clear evidence that additional advertising revenue does exist, and advertisers' resources are being focused on programs enjoying high audience share. More stations would dissolve that share and redirect the advertising dollar accordingly. The fact that Sydney's highest rating station was apparently unaware of the value of direct deals with presenters,

indicates that the medium can support more advertising, because the industry was already unaware of what it was creating!

Implications of restricted choice

[8] Reduced printing costs and lower cost desktop publishing technology did much to increase the variety of printed titles available to the public. In the same way, new methods of program delivery, could provide increased choice in radio listening.

[9] The Internet is already having an impact, with new Internet-only radio stations broadcasting in Australia and overseas. It is possible that, at some point in the future, Internet radio could equal free-to-air broadcasting in the home. Wireless Internet connections could extend this coverage to car and at work listening. Rapid changes in consumer habits are already underway. In June 1999 30% of those on-line in the USA had listened to the radio over the Internet – almost twice the level of a year ago¹.

If people switch to other sources of delivery – eg the Internet – to receive choice in programming, we know that the radio spectrum has not been allocated effectively

[10] So, legislation needs to take account of the likely variety in the mechanisms for delivery of radio to the listener. If consumer choice is restricted, it is possible that people will use new technology – such as the Internet – to receive programs of interest to them. In such an event, if consumers are not making use of the broadcast spectrum because the choice is too restricted, then legislation has failed. The most convenient delivery mechanism will have been abandoned because legislation has restricted choice. This would be a mis-allocation of a public resource.

Comparisons of choice in overseas markets

[11] There is significant evidence that metropolitan audiences in Australia do not enjoy the same diversity of choice offered in many other countries of the world. The Dallas/Fort Worth metropolitan area of Texas has a similar population size to Sydney, estimated for all people aged 12+ as being 3,928,600². Serving this population are at least 26 stations (excluding national stations), most of which operate as commercial enterprises. Formats range from rock and oldies to talk and Christian, encompassing urban, country, adult contemporary, classical and smooth-jazz music formats.

In a market similar in size to Sydney, Dallas/Fort Worth has 26 stations and a variety of formats

DALLAS/FORT WORTH RADIO STATIONS

KAAM Oldies and talk radio.
KAHZ 1360 Children's radio
KCBI Christian radio.
KDGE New rock radio.
KEGL Rock radio.
KKDA Urban contemporary radio.
KEOM 88.5 Mesquite
KERA News talk radio.
KLIF Talk radio.
KLTY Christian radio.

¹ Edison Research (http://www.edisonresearch.com/internet_study_iii_presentation_.htm)

² Arbitron Market Rankings 1999 (<http://www.arbitron.com/radiosurvey/mmm001025.htm>)

KLUV 98.7 Dallas/Fort Worth - Oldies Radio"
KNON Community radio.
DALLAS/FORT WORTH RADIO STATIONS cont
KPLX Country radio.
KRLD News radio.
KRVA Spanish-language and rock radio.
KSCS Country radio.
KSKY Christian radio.
KTCK Sports radio.
KTXQ Rock radio.
KVIL Adult contemporary radio.
KXEB 910 Sherman-Dallas
KYNG Country radio.
KZPS Classic rock radio
The Oasis Smooth jazz radio.
WBAP News talk radio.
WRR Classical radio

[12] In the UK, the city of Manchester, with a population of 2.6million people, has eight local stations and is serviced by a further eight national stations, providing a range of formats from rock and classical to jazz, dance and talk.

*Manchester,
 England has a
 smaller
 population than
 Sydney but a
 wider variety of
 formats
 available*

MANCHESTER RADIO STATIONS

Century 105 Music and speech radio
Galaxy 102 Dance music
Jazz FM 100.4 Jazz, soul and blues
Key 103 Contemporary hits
Lite 1458 Easy listening
Magic 1152 Oldies
Silk FM Soft adult contemporary
Tower FM Popular music

UK NATIONAL STATIONS

BBC Radio One Contemporary hits
BBC Radio Two Easy listening
BBC Radio Three Classical music
BBC Radio Four Talk, drama, news
BBC Radio Five 24 hour news
Classic FM Commercial, classical music
Talk Radio Commercial, news & talkback
Virgin 1215 Commercial, rock and pop

[13] Both these case studies would suggest a poor choice exists for radio listeners in metropolitan Australia. Sydney listeners have access to 10 local radio stations and four national networks. Although the number of stations is comparable with those available in Manchester, the variety of programming delivered by professional stations is notably more restricted.

SYDNEY RADIO STATIONS

2GB News and talkback
2UE News and talkback
2CH Easy listening
2SM Oldies/classic hits
2KY Sport
MIX 106.5 Soft adult contemporary
2DAY FM Contemporary pop
2MMM FM Contemporary rock
2WS-FM Oldies/classic hits
2BL Talk, MOR

AUSTRALIAN NATIONAL STATIONS

JJJ Contemporary hits/alternative
ABC CLASSIC FM Classical music
News Radio News/parliamentary
Radio National Talk, drama, news

The Community Radio Concept

Community radio uses a lot of available spectrum, but broadcasts to a small audience

[14] Some of the formats delivered overseas by commercial operators are offered to listeners in Australia by the community sector. For example, jazz is broadcast at certain times on many stations in Sydney, but no one station consistently delivers this format.

[15] Community radio consumes a large part of the available spectrum but does not enjoy high listenership. Roy Morgan research (March 1999) shows that less than one million people listen to community radio, even though there are 156 permanent stations in Australia.

[16] It could be argued, that unless community radio is serving some other requirement, it is not an efficient use of the available broadcasting spectrum.

[17] Of course, community radio does have another reason for being – to provide public access to broadcasting and serve communities in a way that cannot be met through commercial radio.

[18] In regional Australia this role is clearly defined – particularly in areas where there is no local radio and, increasingly, in areas where local commercial radio is automated from a regional hub. Community radio provides an opportunity for local people to hear local programming.

[19] In metropolitan areas, the remit of local community radio is less clearly defined. People in Sydney, for example, may live in one part of the city, work in another, frequently visit friends in another and dine out in another. One person's daily routine could cross the boundaries of several local community stations. That person might have little or no interest in the affairs of his or her local suburb other than the price of their council rates

and the value of their real-estate. In this sense, the principle of suburban community radio is fundamentally flawed.

Community radio provides some of the formats provided by professional broadcasters overseas

[20] I believe, under the currently model, metropolitan low-powered community radio is trying hard to meet it's local geographic area requirement with little public interest in suburban affairs. Meanwhile, these stations are attracting audiences for special interest music and talk programs not available from commercial stations. Some stations are attempting to establish special interest music formats throughout the day, many of which are available from commercial stations overseas. In other words, amateur broadcasters are providing services available professionally in other countries.

Australia audiences are listening to formats delivered by amateurs that are provided by professional broadcasters overseas

[21] Interestingly, the sense of local identity in metropolitan areas – and, indeed in regional Australia as well – may be dissolving further with the increase in on-line activity. People's communities will increasingly be determined with interests rather than geography.

[22] It seems that the ABA may have considered the paradox relating to community broadcasting in Australia's capital cities. Aspirant broadcasters are currently transmitting throughout metropolitan areas to a community of "interest". Yet, many of these "communities" are related purely to music format – many of which are provided commercially overseas.

[23] If citywide community licenses are issued for music formats which attract sizeable audiences, many commercial broadcasters would feel justifiably hard done by.

Open Narrowcasting

There is no clear definition of Narrowcast licensing

[24] Another tier in the broadcasting regulations provides for open narrowcast licences, with little definition³ of what this covers except that reception must be restricted by:

- by being targeted to special interest groups;
- by being intended for limited locations (e.g. arenas or business premises);
- by being provided during a limited period or to cover a special event;
- because they provide programs of limited appeal;
- or for some other reason

[25] The nature of how a format will meet these criteria or otherwise is at the conjecture of the ABA. Is country music of limited appeal? Is a jazz program targeted at special interest groups?

³ ABA (http://www.aba.gov.au/what/broplan/open_narrowcasting.htm)

The grey area between license types is restricting choice

The Grey Area

[26] There is clearly a grey area covering programming content on community radio, open narrowcasting and full commercial licenses.

[27] The result is:

- Open narrowcasting regulations are being flaunted
- Community radio is struggling to gain an audience and earn the revenue needed to survive
- Commercial radio licenses are expensive and result in broadcasters concentrating on mainstream programming.

[28] Hence, while specialist programming is available to metropolitan audiences, it is restricted to specific times on community stations and is only available in certain parts of the city.

[29] Aspirants are broadcasting city-wide with formatted programming which probably reduces the commercial radio audience, even though the broadcasters did not pay for the licence.

[30] The result of this confusion is restricted choice for Australian audiences. Had the industry been structured according to consumer “wants” the spectrum could be used to greater advantage. Instead, we have a legacy that needs to be updated.

Digital broadcasting will mean many community stations are relaying programs to the same geographic area

The Digital Future

[31] The confusion over the objectives of suburban community radio stations is about to get worse. With digital radio it is likely that local community stations will broadcast to a wider geographic area. For example, if digital transmissions for Sydney are split into four sectors, each sector will include several community stations covering exactly the same geographic area.

[32] At this stage, these stations will have to devise specialist formats to compete. Should these formats be provided by community stations – or could they be delivered commercially – as they are overseas?

The Internet Explosion

[33] As previously addressed, the Internet will expand consumer choice for radio listening. Much of this content will originate overseas. It is not in the interests of the Australian industry to lose listeners to foreign broadcasters. Given the enormous variety of music available, it is the availability of choice which will drive radio listening to the Internet. Legislation needs to address this concern and ensure suitable choice is available off the Australian broadcast spectrum.

[34] Additionally, the traditional model of charging radio stations according to advertising revenue will become outdated as e-commerce provides opportunities for broadcasters to use the Internet to retail goods directly, such as CDs, videos and music merchandise.

Proposal

[35] In this document I have tried to demonstrate how the current use of the radio spectrum is not providing for the interests of the community. The ABA's license plans for metropolitan areas provide minor changes to the structure of the industry. One or two new commercial licenses will have little influence on consumer choice. Meanwhile, the community sector is struggling to survive and the industry faces enormous challenges from overseas.

[36] I suggest that the Productivity Commission's analysis could provide the impetus for major changes in reshaping the structure of the radio industry.

[37] These recommendations, I believe, would be to the benefit of the industry in widening choice, increasing audiences and deflecting competition from overseas.

1. An investigation be established to determine public use of community radio in metropolitan areas. In particular it should address the reason for listening.
2. If such an investigation shows that "music programming" and/or "specialist interest" is of more importance than "local affairs", then the ABA should offer "restricted commercial" licenses for sale to cover music formats and address the issue of the spectrum allocated to community broadcasting.
3. Restricted commercial licenses would be available based on format for a six year period. A potential licensee would provide details to the ABA of the proposed program format. This proposal would be made publicly available then a frequency auctioned based on this format. If the number of proposed formats exceed the frequencies available, the licenses would be allocated to the bidders and formats which attract the highest revenue for the government. A reserve price per frequency would be issued by the ABA prior to the auction.
4. The frequency spectrum be reallocated to provide as many metropolitan wide licenses as possible. This may force the closure of some suburban community stations.
5. License holders pay a fee to the ABA based on company turnover – not just advertising revenue.
6. Consideration be given to the quality of service provided by broadcasters – either based on previous performance, or on the calibre of management. Breaches of broadcast regulations would be taken into account when frequencies are resubmitted for auction at the end of each six year period.

Licenses should be issued for a specific period of time

Licenses should be bid for based on format – frequencies would be allocated to those formats which attract the highest bids

[38] Narrowcast would be abolished under this proposal, with all licenses – except community and national – allocated by this "restricted commercial" process.

[39] This technique would provide choice but still include an element of allocation of frequency based on competitive bidding. For example, a potential broadcaster might believe that a jazz format is viable in Sydney. If several other companies bid to provide the same format the license goes to the highest bidder. If no other bidder comes forward, the jazz license would only be issued if;

- a) the reserve price for the frequency is met by the licensee
- b) the frequency is not allocated to another format attracting higher bids

[40] If only one new license was allocated under this system it is likely, in the current climate, that the bid would be won by a broadcaster wanting a mainstream contemporary format. When several licenses are offered, however, niches are likely to emerge allowing smaller players into the market, delivering targeted programming at lower cost, without impacting too heavily on established mainstream broadcasters.

[41] This model should be considered before metropolitan wide community licenses are issued – particularly if the ABA allocates such licenses to specialist music formats – and before new commercial licenses are bid for.

Conclusion

[42] Australian radio listeners have limited choice in broadcast formats. The grey area between commercial, community and open narrowcast licensing is a concern. Community radio's remit to provide local area programming is not relevant in metropolitan areas. New delivery mechanisms will provide greater competition from overseas broadcasters.

[43] There is a need to use the existing spectrum more efficiently by determining the use of community radio stations and offering the opportunity for specialist music formats based on a price-allocation system. By having the ABA consider past broadcast experience when issuing licenses, some community broadcasters might be able to switch to a commercial specialist format.

[44] This proposal will provide greater consumer choice, while ensuring some element of economic allocation of resources.

Bidding for licenses by format will provide consumer choice. Allowing broadcasters to submit formats prior to bidding will ensure an economic allocation of resources.

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