

**FEDERATION OF AUSTRALIAN RADIO
BROADCASTERS LIMITED**

ACN 059 731 467

SUBMISSION TO

THE REVIEW OF BROADCASTING REGULATION

BY THE PRODUCTIVITY COMMISSION

TABLE OF CONTENTS

1. Introduction	2
2. Executive Summary	2
3. The Australian Radio Industry	3
3.1 Key Submissions	3
3.2 Diversified & Competitive	3
4. Responding to the Listeners	10
4.1 Key Submissions	10
4.2 Tracking Listeners' Demands	10
4.3 Responding to Listeners' Concerns	10
5. New Challenges for Free-to-Air Radio	12
5.1 Key Submissions	12
5.2 Radio's Key Market Segments under Threat	13
5.3 New Technology	13
6. Digital Radio Broadcasting	16
6.1 Key Submissions	16
6.2 Background	16
6.3 Transition to Digital	16
6.4 Conclusion	17
7. Particular Issues	18
7.1 The Changing Nature of Broadcasting	18
7.2 The Public Interest and the Objectives of Broadcasting Policy	18
7.3 The Economics of Broadcasting	19

1. INTRODUCTION

The Federation of Australian Radio Broadcasters Limited (FARB) was established in 1930 with 33 members. Today it has 215.

FARB is an industry association representing the interests of Australia's free-enterprise commercial radio broadcasters, several of them having been in operation since 1925. Its policy is determined by the industry membership each year at its Annual General Meeting and within this general policy framework, further policy decisions are made by a Board of Directors.

The Federation makes this submission to the Productivity Commission to provide an overview of the radio industry in Australia in general and commercial radio industry in particular, but several issues on which there are no industry consensus will be addressed by individual Members.

FARB argues that the industry is competitive, efficient and takes an active and research driven position in responding to the interests of its listeners.

FARB argues that the position of free-to-air commercial radio services is likely to be eroded by new media (including subscription and free-to-air television and Internet services) capable of utilising digital technologies to provide radio-like services.

FARB submits there is a need to introduce a timely legislative framework for the introduction of digital radio to ensure commercial radio is able to compete on equal terms in the digital era.

The Federation acknowledges the assistance provided by Digital Business Consulting Pty Limited in preparation of this submission.

2. EXECUTIVE SUMMARY

The two main points FARB wishes to bring to the attention of the Productivity Commission are:

Commercial radio competes in a very crowded marketplace for a share of the listening audience and for a share of advertising revenues by providing a free-to-air service responsive to the needs of the Australian audience.

The commercial radio industry sees the transition to digital radio broadcasting as the natural evolution from the current analog broadcasting and as a means to compete with other sectors utilising digital service delivery technologies.

To ensure radio is able to move efficiently and deliberately to the new digital radio technology, there is a need for a technology neutral legislative framework for the introduction of digital radio.

3. THE AUSTRALIAN RADIO INDUSTRY

3.1. Key Submissions

- The ABA should continue to ensure diversity of radio services by upholding the differences in the categories of service as specified in the Broadcasting Services Act (BSA)
 - Commercial radio, as the category of radio service most listened to, is providing diversity of programming, at various levels of cost
 - Competition for the radio audience is strong within the industry and from other media providing radio-like services, including on-line services
 - Competition for advertising revenues is also very strong, with radio likely to be affected by the advent of new services
 - Commercial radio revenues have not increased proportionately with the introduction of new services in regional areas causing many stations to incur losses
 - The ownership of commercial radio services within duopolies and networks enables cost efficiencies to be gained and services to be improved.

3.2. Diversified & Competitive

3.2.1. Diversity between Categories of Broadcasting Services

The Broadcasting Services Act (“BSA”) defines six categories of broadcasting services:

- (a) National broadcasting services
- (b) Commercial broadcasting services
- (c) Community broadcasting services
- (d) Subscription broadcasting services
- (e) Subscription narrowcasting services
- (f) Open narrowcasting services

The Australian radio industry provides services in each of these categories of service. Only commercial radio and community radio services require individual licences, all other radio services (other than the national radio services) are provided under the relevant class licence.

The national radio services are those services provided in accordance with the Australian Broadcasting Corporation Act 1983 (up to five services in each market) and the Special Broadcasting Act 1991 (one or

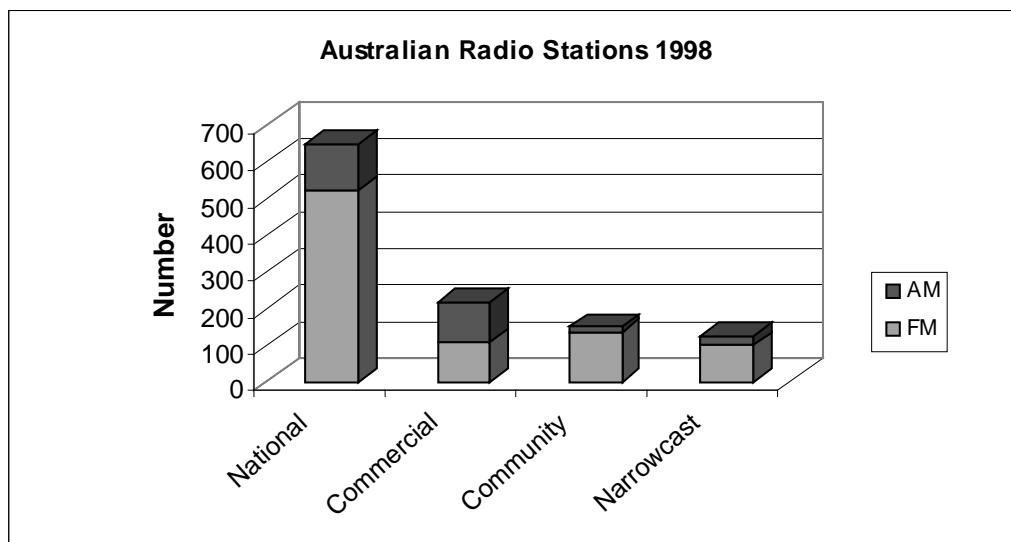
two services in each metropolitan market).

Commercial radio broadcasts services¹:

- (a) that provide programs that, when considered in the context of the service being provided, appear to be intended to appeal to the general public; and
- (b) that provide programs that:
 - (i) are able to be received by commonly available equipment; and
 - (ii) are made available free to the general public; and
- (c) that are usually funded by advertising revenue; and
- (d) that are operated for profit or as part of a profit-making enterprise

Community radio broadcasts services²:

- (a) that are provided for community purposes; and
- (b) are not operated for profit or as part of a profit-making enterprise; and
- (c) that provide programs that:
 - (i) are able to be received by commonly available equipment; and
 - (ii) are made available free to the general public



NOTE: National figure refers to number of transmitters, ABC Annual Report 97/98.

In 1992 a new broadcasting category was introduced in Australia that was to be complementary to the services already provided as national, commercial and community radio services. This category of service is called Open Narrowcasting.

Open narrowcasting radio provides broadcasting services³:

- (a) whose reception is limited:

¹ Broadcasting Services Act 1992 Section 14 Part 2 section 14

² Ibid section 15

³ Ibid section 18

- (i) by being targeted to special interest groups; or
- (ii) by being intended only for limited locations, for example, arenas or business premises; or
- (iii) by being provided during a limited period or to cover a special event;
- (iv) because they provide programs of limited appeal; or
- (v) for some other reason

This legislative categorisation of services found in the BSA provides the Australian consumer with a diversity of choice of radio programs delivered free of charge to a standard radio receiver.

3.2.2. Program Diversity with a Range of Cost Levels

Within the commercial radio category there is a diversity of program formats with different cost levels and revenue expectations. Commercial radio provides a variety of program formats with combinations of personalities, music, news, sport, promotion and audience interaction. Each station has a different emphasis on each of these components. The right formula today may need some subtle changes tomorrow.

In the competitive commercial radio industry success rarely comes cheaply. The following table sets out the numbers and average operating expenditure and revenue levels for the 215 commercial radio services in Australia at June 1998⁴.

Commercial Radio Market	AM/FM	Number	Average Annual Operating Cost \$ '000	Average Annual Revenue \$'000
Capital Cities	AM	18	7,511	7,722
	FM	21	9,524	12,752
Larger Regional (100,000+ pop)	AM	18	1,328	1,561
	FM	26	2,146	2,535
Medium Regional (40,000-100,00 pop)	AM	37	1,238	1,386
	FM	33	367	415
Smaller Regional (<40,000 pop)	AM	33	582	642
	FM	29	310	303

In the highly competitive capital city markets, salaries and wages represent 35% of total operating costs for FM services and 45% for AM services. Expenses that are variable with revenue represent 31% of total costs for FM services and 16% for AM services.

In regional markets, salary and wages represent 40% of total operating costs while revenue related costs represent 14%.

⁴ Broadcasting Financial Results 1997-98, Australian Broadcasting Authority March 1999

Revenue earning capability, the program format being provided and the nature of the market being served are the determinants of the level of costs.

With dual station ownership of radio services in the same market, sharing of overhead costs (administration, occupancy) has enabled some economies to be achieved.

3.2.3. Competition for the Radio Audience

With the increased number of leisure activities available, the competition is intense for the time audiences allocate to radio.

Commercial radio competes for the radio audience with national radio (up to seven services in each market), community radio and various narrowcasting services.

Of all the radio broadcasting sectors, commercial radio has the largest audience share of listening with 75%, followed by the national (21%) and community (4%) sectors. The strongest competition for audience is from within the commercial radio sector of the radio industry.

One of the greatest advantages for radio over other media is its mobility, with audiences free to listen to radio programs in cars, outdoors, at work and around the home. All radio services capitalise on this feature, but none more so than commercial radio.

The BSA allows the common ownership of two commercial radio services in the one market. With dual ownership, complementary radio services are provided to the market, ensuring greater diversity and in so doing, meeting the objectives of the Broadcasting Services Act.

However commercial radio is now also competing with a variety of new services being delivered by means of a number of technologies, many of which are unregulated and without the added costs.

Currently, one of Australia's pay-TV services includes a selection of music audio channels. With the introduction of multi-channel digital satellite pay-TV, this service will be expanded. A music video channel is included with the basic service offered by Australian pay-TV operators.

The audience now has a choice of hundreds of Internet radio services from around the globe. The Internet also delivers near CD quality music. The latest advances in MP3 technology enables a personal selection of CD quality music taken from the Internet to be down-loaded to "walkman" style players that weigh less than 8 grams.

The advent of digital datacasting has the potential to enable the latest news and information services to be transmitted in audio form to handheld personal organisers or mobile telephones.

3.2.4. Competition for Advertising Revenue

While commercial radio is competing for listeners' time, it is also competing for a share of advertising revenues.

The commercial radio industry is made up of independent broadcasting enterprises each driven to increase audience reach and to grow or maintain its main source of revenue - advertising. Competition for advertising revenues within the sector is fierce.

This competition has driven the cost of advertising down compared to television, magazines and newspapers. A study undertaken by the Federation of Australian Commercial Television Services in 1997⁵ showed that radio is about one-fifth the cost of newspapers and one-third the cost of television on a cost per thousand people basis.

The growth of new media in the marketplace has had an impact on radio's share of advertising revenues. As radio is not seen as a prime medium by the majority of major advertisers, it is easy for those advertisers to redirect advertising budgets, previously allocated to radio, to new media such as pay TV and the Internet.

Radio also competes with magazines for advertising revenues. In the ten years since 1988, the number of women's and men's, general interest and special interest magazines has grown by 350%, with the largest growth in the specialist magazine area.

3.2.5. Commercial Radio Revenues

In the fourteen years to 1989, commercial radio revenue grew at an average rate of 14.7% per annum, with a high inflation rate the main contributor. With the fall in the inflation rate, radio revenues were flat for the next four years, increasing at an average rate of 1.6% per annum.

From 1994 to 1998, 55 new licences were issued mainly in previously solus commercial radio markets in regional areas. However, the 45% increase in the number of licences in regional areas resulted in only a 3.0% per annum increase in revenue over the period. The 39 capital city services fared better, increasing revenue by an average 6.7% per annum⁶.

With the dual ownership of services in markets, commercial radio operators have been able to provide additional services cost effectively, while providing audiences and advertisers with complementary programming streams.

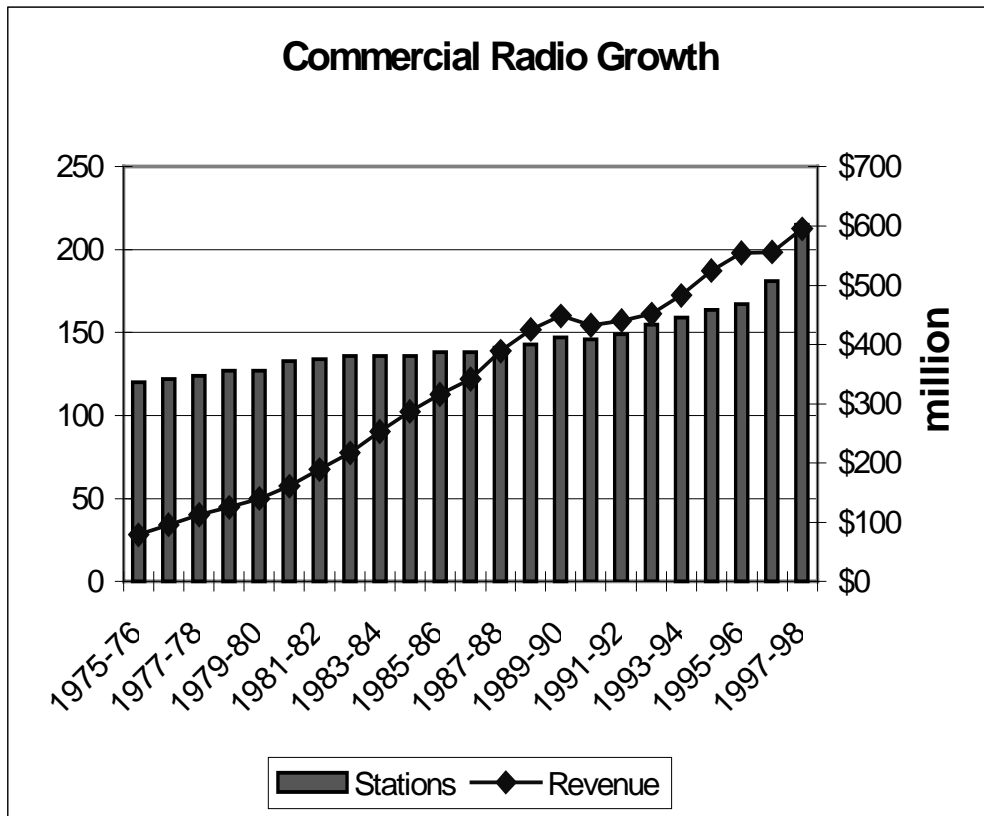
⁵ Media Cost Efficiency Trends FACTS cost per thousand study from 1988 to 1996

⁶ Broadcasting Financial Results 1997-98 Australian Broadcasting Authority

This is most apparent in regional markets. The average cost of operating a regional service in 1997-98 was \$940,000 compared with \$1,244,000 in 1993-94.

In the capital city markets, where operators continued to find efficiencies with dual ownership, the average operating costs increased on average by just 2.6% per annum in the five years to 1997-98. In 1997-98 the average cost of delivering a capital city commercial radio service was \$8.6 million, 30% of which was salaries and wages.

In 1997-98 the total profit earned by the commercial radio sector was \$94.8 million, a return on revenue of 15.9%. However the profit was not spread evenly across all services. The 21 capital city FM stations earned \$67.8 million (71% of industry profit), 18 capital city AM stations earned \$3.8 million (4%) while 176 regional services shared a profit of \$23.2 million. Half of the capital city AM services incurred a total operating loss of \$7.4 million in 1997-98.



Of the 39 capital city licences, 29 made a profit, while 128 of the 176 regional licensees were in profit and the remainder in loss.

The imbalance is due to the fact that stations with a larger share of the radio audiences attract a proportionately larger share of advertising revenues. With some notable exceptions, capital city FM services are more popular than AM stations with those audiences that are attractive to advertisers.

3.2.6. Commercial Radio Networks

In 1992 the limits on the number of radio services that one group could own were lifted and ownership of two services in the same market was also permitted.

With the elimination of the foreign ownership rules – which was supported by the commercial sector - additional foreign capital flowed into the commercial radio sector. Much of this foreign capital purchased existing licences to form capital city and regional networks.

Privately controlled radio networks also developed to benefit from the efficiencies derived from economies of scale. Today 11 networks account for 170 of the 215 radio services.

The six largest networks in terms of licences owned are set out in the table below:

Network	Owner	Number of Stations	
Austereo	Village Roadshow Limited	Cap City Regional	10 *4
Australian Radio Network (ARN)	Australian Provincial Newspapers and Clear Channel, Inc	Cap City Regional	8 *3
DMG Radio	Daily Mail and General Trust plc	Cap City Regional	1 56
Supernetwork Radio	Caralis Family	Regional	27
RG Capital Australia	RR Grundy	Regional	17
Grant Broadcasters	Cameron Family	Regional	11

* 2 stations held in joint venture

Radio has always been seen as a difficult medium to buy due to the fragmented nature of the business. However, in recent times, the three major radio national sales representation groups, Austereo, ARN and DMG/RG Capital, have established sales networks to represent stations to the national advertisers, making it far easier for these advertisers and agencies to buy radio. National and agency advertising represents 53.0% of total revenue for capital city services and 29% for regional services⁷. The formation of sales representation groups, which include stations not necessarily owned by the networks, has the potential to increase the sales efficiency of commercial radio.

⁷ Broadcasting Financial Results 1997-98 Australian Broadcasting Authority

4. RESPONDING TO THE LISTENERS

4.1. Key Submissions

- Commercial radio invests heavily in commissioning research to ensure it reacts promptly to audience trends
- Commercial radio broadcasters are conscious of their responsibility to uphold the expectations of its listeners and have a desire to improve commercial radio's already high standing in the community

4.2. Tracking Listeners' Demands

Commercial radio provides a highly researched free broadcasting service listened to by 79% of all Australians.

The commercial radio sector currently spends \$3.2 million annually (\$2.45M in metropolitan markets and \$740,000 in regional markets) on audience surveys to assist advertisers in their selection of the radio stations that deliver the most appropriate audience for their particular products. This is one of the key advantages for advertisers using radio – a broadcast medium delivering large targeted audiences.

To ensure they are providing the right programming for their targeted audience, commercial radio stations also commission their own independent tracking research and qualitative research studies of their particular audiences.

With the growth of networks, research has become more cost effective providing even the smallest of radio stations within networks much needed data on the audience demands.

In a very competitive market, this research ensures commercial radio remains relevant and able to deliver its service to its audience when it wants it and how it wants it.

4.3. Responding to Listeners' Concerns

4.3.1. Success of Codes of Practice

Commercial radio broadcasters acknowledge that the co-regulatory approach adopted by the BSA has been a major step towards a more market-based and less interventionist approach to broadcasting regulation. This is borne out by the relatively low number of complaints to stations under the Codes of Practice and the minimal number of those which are referred to the Australian Broadcasting Authority.

The industry Codes of Practice achieve the Government's objectives as expressed in the BSA and they adequately reflect community attitudes towards broadcasting.

Commercial radio broadcasters have successfully replaced all program standards with industry codes of practice. For instance, the code of practice relating to Australian music content has successfully replaced what used to be a program standard imposed by the former Australian Broadcasting Tribunal.

The Codes of Practice were first introduced by FARB in 1993, after seeking public comment and registration by the Australian Broadcasting Authority. FARB is currently undertaking a review of the codes to ensure they continue to reflect community standards and views.

The most significant changes to the codes of practice currently being proposed by the Commercial Radio licensees are in the areas of taste and decency, Australian music content and complaints handling by stations.

4.3.2. Community Standards

Commercial radio broadcasters are conscious of their responsibility to uphold the expectations of their listeners and have a desire to improve commercial radio's already high standing in the community. The commercial radio industry has seen fit to significantly tighten the code governing the broadcast of explicit material.

While the current code makes specific reference to avoiding the use of language that would be considered offensive to contemporary standards of decency, it sets no specific parameters with regards to language or the portrayal of sexual material. The code now includes specific reference to strictly limit the broadcast of language, and reference to sex and sexual behaviour.

The gratuitous use of language likely to offend must be avoided and any program with a sexual theme as its core component is restricted to the hours of 9:30pm and 5:00am⁸.

4.3.3. Australian Music Content

Prior to 1993, the Australian Broadcasting Tribunal imposed a standard requiring commercial radio stations to broadcast a flat 20% Australian music content regardless of format. Stations with younger audiences had no difficulty complying with the standard, while stations with older audiences had difficulty sourcing the necessary variety of Australian product to comply, without compromising the quality and economic viability of their services.

With the move to industry codes of practice under the BSA, the Government was under strong pressure from the music industry for the requirement to broadcast Australian music to remain a standard.

However, despite these concerns of the music industry, the code of practice has been a success in that it has demonstrated it is more

⁸ Discussion Paper – Commercial Radio Code of Practice 1999, FARB April 1999 Pg 1

attuned to the diversity of commercial radio formats, than was the previous standard.

The proposed revised code of practice for Australian content on commercial radio takes the promotion of Australian music one further step and demonstrates the commercial radio industry's commitment to Australian music content.

The revised Code includes three major new components providing increased support for Australian music – for the first time a minimum percentage requirement for “new” Australian music; the inclusion of a new 20% category to cater for the increased diversity of station program formats since the introduction of the Codes of Practice in 1993; and, the lifting of the minimum Australian content on smaller regional stations (under 100,000 market population) from a flat 10% up to 25%. In addition, to the Australian music quotas the commercial radio industry voluntarily undertakes a wide array of projects to promote Australian artists⁹.

The Commercial Radio Industry believes the new code will allow broadcasters greater flexibility to further develop formats which will enhance their appeal to listeners, while promoting the development of Australian music, clearly meeting a key objective of the BSA for services to reflect “a sense of Australian identity, character and cultural diversity”.

4.3.4. Complaints handling

Under the proposed new Codes all complaints must be in writing and licensees should respond substantively within 30 days of receiving the complaint. This approach mirrors standard broadcasting industry procedure. .

All complaints under the Codes must now be made in writing, but the licensee must now respond substantively within 30 days of receiving the complaint (currently complaints are required to be responded to as soon as practicable)¹⁰.

5. NEW CHALLENGES FOR FREE-TO-AIR RADIO

5.1. Key Submissions

- A key market segment of commercial radio's audience is spending more time with new media such as the Internet, and other competing media are able to offer services in this area using digital technology. Even though the movement to new media is currently very small it is expected to increase over time.
- Commercial radio wants an opportunity to compete in this area by being able to develop digital radio and related services.

⁹ Ibid pg 2

¹⁰ Ibid pg 7

5.2. Radio's Key Market Segments under Threat

Unlike other media that currently require the consumer to actively seek them out, radio travels with the consumer throughout their day. Radio allows the consumer to engage in other activities while listening to programs. Key radio audiences during radio's prime time are people driving to and from work and at work.

Radio may soon be sharing this audience with new services such as digital television and digital subscription datacasting, which see the mobile and portable markets as key to their business strategies. Unlike analog television, digital television provides excellent reception to mobile locations, such as trains, buses, ferries and motor vehicles. Radio needs to be able to compete in this market to maintain the relevance of free to air radio.

A key age demographic for radio is the 'time poor' 18-39 year olds. Commercial radio reaches 9 out of 10 of the 18-24 year old audience. This same audience demographic is the most likely to have accessed the Internet of any age group. However, of Internet users, people aged 25-39 years spend the most time accessing the Internet on an average weekday. The 18-39 year olds are the typical 'early adopters' of new technologies.

The challenge for radio is to maintain these audiences by continuing to respond to their particular needs for information and entertainment. These audiences will want to receive these services when they want it and how they want it. Radio needs to be able to offer a range of services using new digital technologies. Otherwise commercial radio as a whole is facing the same fate as its AM radio services that did not have the opportunity to move to higher quality FM transmission earlier this decade.

5.3. New Technology

5.3.1. Internet Radio

Australians can now receive a vast array of Australian and overseas radio services to their homes.

In an Internet search undertaken by the Australian Broadcasting Authority in August 1998 using Yahoo! Australia and New Zealand, 9,070 sites for radio were identified¹¹.

A number of existing radio stations are audio streaming their services over the Internet allowing visitors to sample on-air programming as well as provide feedback through their web sites. Technological advancements such as faster

¹¹ Headbanging or Dancing Youth and Music in Australia, Gillian Ramsay Australian Broadcasting Authority 1998 pg 123

modems are rapidly increasing the speed it takes to download music [and audio] and necessary equipment is becoming more affordable¹²

One of the products offered over the Internet is MP3 music.

MPEG 1, Audio Layer 3, or MP3 as it is known, is a audio technical standard which allows users to download and listen to songs with great speed and ease. It enjoys a passionate following among early adopters of on-line music downloading.

"The take-away from MP3 is that consumers want a digital music format that allows a great deal more control of the content they choose," said Mark Hardie, a senior analyst at Forrester Research who follows the music industry. "It is inevitable that we will have a music industry that distributes its products digitally."

5.3.2. Pay Television

Digital satellite television is being made available to all Australians.

Austar and Foxtel, two of Australia's three major pay television operators, are concentrating on development of their DVB-S compatible digital services using the Optus satellite.

Currently Foxtel is offering no more than the suite of channels offered on its analog cable service. However this is likely to change with more channels being offered.

DISH Network, the US DVB-S system provided by EchoStar, is a very good example of the potential services to be delivered by digital satellite. DISH Network offers customers over 200 channels of digital video and CD-quality audio programming with a fully MPEG-2/DVB compliant hardware, installation, financing and leasing.

Included with the 200 channels are 23 music audio channels, 2 datacast channels and 5 music video channels

On 7 January 1999, EchoStar and WebTV Networks, Inc announced the world's first Internet TV service available through satellite.

5.3.3. Digital Television

The advent of digital terrestrial and satellite television will provide Australian audiences with a myriad of new services to a number of different receiving devices.

In a recent report commissioned by the Department of Communications, Information Technology and the Arts¹³, a number of digital datacasting

¹² Ibid pg 124

¹³ Digital Broadcasting – Industry Opportunities for the New Millennium, Digital Business Consulting Pty Limited November 1998

services were suggested for development in Australia. These services could be delivered by satellite or terrestrially, using television or radio digital capacity.

There are applications for services currently provided by commercial radio in each of the six categories of digital datacasting services.

- Supplementary Program Information – screen displays of music tracks, sporting results, weather, traffic, news items
- Subscription funded data services – financial
- Transactional – reservations, polling, bill paying, shopping
- Multimedia services – race photo finishes, Internet data
- Community – delivery of email, local information, surveys
- Business and mobile applications – place-based advertising, in-car mapping

With the addition of a mobile telephony GSM card, the mobile digital radio receiver can become an interactive device, capable of limitless e-commerce applications.

A digital radio receiver card for a computer enables data to be transmitted and downloaded to the computer's storage device. Canalsatellite in France operates a data download service to subscribers' PCs. The computer program Windows 98 was retailed to subscribers by this method¹⁴.

The digital radio receiver card also enables the computer to become a more efficient receiving device for terrestrial free-to-air and Internet radio services.

5.3.4. Digital Radio – an opportunity to compete

Commercial radio should be given the same opportunity to develop digital radio and related services as was given to the commercial television industry for the development of digital television services.

A timely and flexible policy framework should be implemented to ensure commercial radio is able to capitalise on the development opportunities with new digital technologies for delivery of services.

Otherwise commercial radio's free-to-air services will be eroded by those able to utilise these technologies ahead of radio. It is also important to note that much of the new media is largely unregulated and does not have the attendant costs.

¹⁴ The Development of Datacasting Technologies and Services – Communications Strategies & Management Pty Limited February 1999

Australian commercial radio is looking for an opportunity to compete on a level playing field with other media moving down the digital path. Commercial broadcasters can then provide their audience with information and entertainment when they want it, where they want it.

6. DIGITAL RADIO BROADCASTING

6.1. Key Submission

- Commercial radio wants to move to the next stage in the technological development of radio broadcasting with a seamless transition of its audiences and advertisers

6.2. Background

The Minister for Communications, Information Technology & The Arts, Senator Richard Alston, announced in August 1997 that existing broadcasters would be able to automatically convert to digital, but will be required to transmit their programs in analog mode for a simulcast period to ensure listeners are not disadvantaged.

The Minister established a Planning and Steering Committee, chaired by his Department, and comprising industry representatives, plus Government agencies to develop a comprehensive framework to enable digital radio services to commence transmission in Australia in 2001.

The Minister's announcement was the outcome of a number of reports on digital radio, the most important being that of the Digital Radio Advisory Committee (DRAC), published in 1997. The recommendations of DRAC have formed the basis of the work of the Planning and Steering Committee.

FARB is a member of the Planning and Steering Committee and has committed significant resources to assist with the planning and policy work of the Committee.

The spectrum planning work for digital radio is nearing completion and FARB supports the concept of the necessary legislative program being completed by mid-2000 to ensure the development phase of digital radio can commence in the year 2001.

In dealing with the legislative framework it must be emphasised that Australia's DRB technical and spectrum options are more complex and diverse in range to those associated with digital television. Some issues depend upon developments relating to transmission standards and spectrum requirements and in particular the availability of low cost and effective receivers – portable, fixed and in cars.

6.3. Transition to Digital

The commercial radio industry is seeking a six year development phase for digital radio with no new commercial services to be planned during that time, in recognition of :

- The high cost of introducing digital services with little or no additional revenue anticipated during what will be an extensive simulcast period of fifteen years plus;
- The additional commercial services introduced under the current ABA planning process. Such services will be faced with double establishment costs in a very short period of time and also suffer the disadvantage of also not being established services with widespread listener support.
- Parliament having recognised the need for a substantial development phase with digital television, notwithstanding that there has been no comparable increases in analog services, as compared to radio;
- The high cost of receivers in the early years, coupled with the lack of consumer demand;
- The slower take-up of digital radio services in Europe, UK and Canada than had been anticipated
- The generally accepted fact that radio will suffer inherent disadvantage in the take-up rate of digital receivers as compared to digital television, which benefits from various factors, including the clear superiority of the digital picture and the comparable cost to analog receivers with the option of low cost converters.

It is obviously in the interests of the listening public that the introduction of DRB not be the cause of any interruption to the provision of the services presently provided by way of analog technology and the legislative framework should provide for a seamless transition of all services to digital. This is all the more important in view of the anticipated lengthy simulcasting requirements, which will be the subject of ongoing review, as digital unfolds. It is not possible at this stage to prescribe a length for the simulcast period or a date for phasing out analog services.

6.4. Conclusion

A proper legislative framework for the introduction of DRB will provide certainty and a basis for further investment in the commercial industry. Confidence in commercial radio will be maintained if a flexible digital pathway is provided to maintain the existing standard of services, plus adding the benefits that digital technology can provide.

The costs of digital conversion for commercial and other radio broadcasters is obviously going to be considerable and commercial revenues are unlikely to enjoy any significant consequent increase in the short term. Digital radio broadcasting policy must not be determined in a climate in which unreal expectations are held about the benefits thereof to audiences and investors.

7. PARTICULAR ISSUES

7.1. The Changing Nature of Broadcasting

Refer to sections 3 and 5 above.

7.2. The Public Interest and the Objectives of Broadcasting Policy

Refer to sections 3 and 4 above.

7.2.1. The Problems

FARB supports the system of co-regulation that is currently in place. FARB believes it has proven that the public interest and the objectives of broadcasting policy have been met more efficiently and effectively with the industry codes of practice than with the previously regulator imposed standards.

FARB supports the setting out of the objectives in the BSA to ensure all broadcasting services are working within the same legislative framework.

7.2.2. Social Dimensions of the Public Interest

FARB believes that the Australian public is served well by the diversity of broadcasting services as set out in the BSA.

The commercial radio industry does not have a consensus view on whether the current regulations on ownership and control, foreign investment and cross media are effective in promoting plurality of opinion and preventing concentration of political power in the hands of a few.

FARB wishes to raise with the Productivity Commission the issue of the limitation on broadcasting of political material prior to an election. This is a condition on the licence¹⁵. No such limitation is placed on newspapers. The limitation seems unfair and, because of the lack of a similar control on newspapers, is ineffective. The condition of the licence also limits the competition for political advertising revenue to the detriment of commercial radio and television services in favour of newspapers.

7.2.3. Promoting Australian Identity and Culture

Commercial radio remains a local medium with a high level of Australian content including Australian personalities, Australian news and information, Australian advertising and Australian music. Very few programs broadcast are purchased from overseas.

Specifically FARB refers the Commission to paragraph 4.3.3 above.

¹⁵ BSA Schedule 2 Part 2

7.3. The Economics of Broadcasting

FARB refers the Commission to sections 3, 4 and 5 above.

7.3.1. Co-regulation

FARB supports the system of co-regulation that is currently in place. FARB believes it has proven that the public interest and the objectives of broadcasting policy have been met more efficiently and effectively with the industry codes of practice than with the previously regulator imposed standards.

FARB refers the Commission to sections 3 and 4 above.