SUPPLEMENTARY SUBMISSION BY

SEVEN NETWORK LTD.

TO

THE PRODUCTIVITY COMMISSION

INQUIRY INTO THE

BROADCASTING SERVICES ACT 1992

August 1999

SUMMARY OF RECOMMENDATIONS

The Seven Network recommends that :

- the Australian content requirements as determined by the Australian Broadcasting Authority be amended to provide greater flexibility and diversity in the range of materials that can be produced to meet Australian content quotas

- an option be introduced to permit commercial television licensees to fulfil their quotas for Australian content transmission hours over a longer period such as three years rather than the current unnecessarily restrictive one year

- if Australian broadcasters are to be able to compete for Australian children's attention in a digital era with quality product that incorporates high production standards, the ABA guidelines must be revised to reflect broad audience realities not individual preferences

- the Productivity Commission identifies and articulates the social, economic and cultural roles and functions of the Australian commercial television industry as a necessary precursor to examining the appropriate regulatory structure to facilitate the fulfillment of those roles and functions

- urgent action be taken to amend the Digital Terrestrial Television decision to give broadcasters the choice of multichannelling and consumers the option of a less costly and swifter transition to the new technology

- urgent action be taken to ensure full compliance of IRD's with the appropriate world standard before broadcasters and retailers have committed to ordering equipment

- a "convergence of ownership" rule be developed for inclusion in the *Trade Practices Act 1974* that incorporates a test as to whether an agreement, action, acquisition or merger would be "…likely to substantially lessen plurality …" of ownership and thereby lessen diversity of views available in the media market.

- the *Trade Practices Act 1974* be amended to enable the ACCC to examine conduct in conjunction with other conduct in order to decide whether the accretion of action will have the <u>combined</u> effect of substantially lessening competition in the media communications market.

- the range of variables identified in this submission to measure market ownership and market power be refined and incorporated in amendments to *the Trade Practices Act 1974* as legislative guidance to the ACCC when considering competition and plurality issues in the media market.

- declaration of the broadband cable, satellite and microwave networks as active declared services. Failure to declare these carriage services will entrench a duopoly, and eventual monopoly, in both carriage and content service provision for Pay TV. There will be insufficient market power by other players to constrain pricing and output decisions. The long term interests of end-users will not have been promoted.

- in the interests of fair competition and to protect the public right of access to key sport free of

charge the anti-siphoning rules be retained and consideration be given to preventing those that control access to carriage services from also acquiring exclusive rights to program material.

- investment funds managed by foreign owned funds for Australian investors should not be considered foreign for the purposes of the *Broadcasting Services Act 1992, Foreign Acquisitions and Takeovers Act* or Foreign Investment Policy

- appropriate financial instruments including non-voting shares, preferred shares, convertible and subordinated debentures be accepted as legitimate avenues for passive investment in Australian media companies without giving rise to foreign ownership and control triggers

- in the interests of plurality of ownership and diversity of opinion, and to diminish the risk of further concentration of ownership, increased foreign equity participation in Australian media be encouraged through
  - raising the limit on foreign equity investment in Australian media enterprises to an aggregate 49% company interest
  - restricting individual foreign ownership to 14.9%
  - retaining the existing prohibition on foreign control, and
  - vesting regulatory oversight of foreign ownership and control provisions with the Treasurer in consultation with the *Foreign Investment Review Board* operating under the provisions of the *Foreign Acquisitions and Takeovers Act.*

- the Commission or other appropriate body investigate the benefits of a contributory scheme to local production by foreign investors as a quid pro quo for the profit potential of increased levels of foreign investment in Australian media assets

- a major industry-Government joint study be undertaken to examine options to encourage competitive Australian television exports. These may include
  - tax breaks
  - exemptions to ACCC rules allowing network co-operation in overseas sales
  - Austrade assistance; and preferably
  - aggressive negotiation on the industry’s behalf in the next round of GATT negotiations on “cultural trade” in November 1999.

- a package approach is essential to the acceptance and implementation of some recommendations and that timing of any changes must be negotiated with the industry and transparent to avoid inequitable treatment or opportunistic exploitation of the changes.

SUPPLEMENTARY SUBMISSION BY THE SEVEN NETWORK
TO THE PRODUCTIVITY COMMISSION
INQUIRY INTO THE BROADCASTING SERVICES ACT 1992

The Seven Network is pleased to make this further submission to the Productivity Commission. This submission broadly endorses the proposals put to the Commission by Wattle Park Partners in its submission of July 1999. Rather than reiterate the proposals contained in the Wattle Park Partners submission, the Seven Network provides the following additional comment on some of the issues contained in that submission and raises additional matters including :

- the need to recognise the social contract that is inherent in a commercial television broadcasting licence and to reflect that contract in the nature and the degree of regulation imposed

- a suggested new approach to addressing competition regulation in the industry and establishing measures that quantify market power as an aid to setting limits

- the fundamental importance of access to carriage service infrastructure for content service providers to ensure consumer access to content of their choice, a contestable content market for subscription services and price competition for pay TV product

- the dangers of removing anti-siphoning measures to protect public access where content service providers also control key gateways to carriage services

- options to foster Australian television exports including aggressive negotiation on the industry's behalf in the next round of GATT negotiations on "cultural trade" in November

- the importance of a carefully timed, "package" approach to any regulatory reforms if individual participants are not to be unfairly disadvantaged and the changes exploited.

THE SOCIAL CONTRACT

Before deciding the most appropriate regulatory regime for commercial television it is first necessary to decide what is required from those services. Regulation of commercial television has traditionally involved a quid pro quo - a trade off - between the social, cultural and economic objectives of the Government and the legitimate commercial objectives of licensees. If Governments are to continue to

require commercial broadcasters to meet quotas and fulfil standards for Australian drama, children's programming and news and current affairs, justification for a regulatory regime that enables those conditions to be fulfilled will continue. Without that balance the capacity of the industry to deliver social and cultural imposts would be threatened.

The importance and cost of this social contract is most evident in relation to the requirements for local Australian drama and children's programming.

Australian Content

The ABA recently issued a new standard for Australian content with the stated objective to promote the role of Australian television in reflecting a sense of Australian identity, character and cultural diversity, while complying with Australia's Closer Economic Relations and international co-production obligations.

The Seven Network has a long-standing reputation as the network that specialises in Australian drama, comedy, sport and documentaries. The Seven Network has consistently complied with the Australian content program requirements and generally exceeds the minimum levels of drama and documentary programming to be broadcast.

The 1997-98 results show that compliance with the Australian Content Standard was not consistent across all commercial television networks. The Seven Network and its affiliates that seek to broadcast high levels of quality Australian drama spent $268.2 million on Australian programming, a 2.9% increase from the previous year. The Nine Network and its affiliates that highlight news and sport spent a total of $195.6 million, a 3.1% decrease from the previous year. The Ten Network and its affiliates whose marketing strategy centres on a more limited audience range to deliver cheaper imported product spent a total of $78.9 million, a 2.8% decrease.[1] In 1997-98 the Seven Network spent $73 million or 37% more than Nine and $190 million or 240% more than Ten on Australian product.

Important social and cultural policy goals are achieved through local content regulation. Local content reflects Australians to themselves, rates exceptionally well and, as a result, provides significant advertising revenue for Australian networks. However this revenue is not always sufficient to defray the additional cost. Local content is becoming increasingly important with the globalisation of media markets and the cultural pressures that derive from transborder broadcasting. The Seven Network accepts the value to Australia of its obligation to meet quota requirements and has therefore continued to exceed the minimum requirements.

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[1] Australian Broadcasting Authority, *TV profits up 6.9 per cent; radio up 26.8 per cent in 1997-98*, News Release 23/1999, 17 March 1999

The New Zealand experience has demonstrated that total deregulation of the broadcasting market has eroded the local production industry to a point where only 24 % of television programming is now locally-produced. This compares with 55% in Australia, 60% in Canada and over 80% in Britain. Programming in New Zealand has become increasingly reliant on repeats and semi-infomercial material and a shift in production from the more expensive, higher quality and/or higher risk programs to cheaper, lower quality material. Further, diversity of program type is decreasing, with greater emphasis on news, infotainment and general entertainment programming.[2] This decline in production and production quality has impacted on New Zealand's ability to export programs with a negative impact on its trade figures.

There is a significant cost associated with the production and screening of local content. For example, a locally produced telemovie costing approximately $1.3-2.5 million per hour attracts a broadcast licence fee of approximately $500,000, whereas an equivalent foreign program costs only $20,000-80,000 per hour. In the 1997/98 financial year, the commercial television networks spent a total of $566.1 million financing local content, compared with $234.8 million spent on overseas programs. These results represent a 3 and 9.3 per cent increase in program expenditure respectively.

If the advertising pie is eroded by any means, whether through increased market entry, economic downturn or simply the changed patterns of placement by advertisers as they adjust to new mediums such as pay TV or the Internet, the capacity to continue to provide local content will be similarly eroded with a commensurate impact on Australia's domestic economy and its balance of trade in services[3].

In Australia, the high cost of making series drama or one-off drama programs (such as telemovies and mini-series) cannot be recovered from local sales. Consequently, the Australian production industry is very dependent on production investment and export opportunities. The existing regulations prescribing quite narrowly what is permitted to qualify as an 'Australian' production make it even harder to attract export sales and investment.

While the need for continuation of quotas for Australian content is accepted, the Seven Network considers that there should be greater flexibility and diversity in the range of materials that can be produced to meet those quotas. The commercial reality is that the programming must comprise material that viewers want to watch. If it does not audiences will go elsewhere, advertising revenues will fall and the capacity to fund future programs will be further eroded.

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[2] Communications Law Centre, *Foreign Ownership and Local Programs: An Assessment of Some International Television Broadcasters*, Research Paper for the Seven Network, June 1999, p28-29
[3] See *Competition and Content* a Report by Tasman Institute, July 1999 at Attachment 3

The Seven Network recommends that the Australian content requirements as determined by the Australian Broadcasting Authority are amended to provide greater flexibility and diversity in the range of materials that can be produced to meet Australian content quotas.

A healthy commercial television industry is fundamental to survival of the Australian audiovisual production industry. In 1997 television program production accounted for almost 70 per cent of the total value of the industry. This figure increases to 80 per cent if television advertisements are included, with three-quarters of expenditure on television programs representing production by or for commercial television. A healthy audiovisual production industry will become increasingly important to Australia as we move into the digital age and Internet driven e-commerce and multimedia applications require high levels of skill, expertise, output and efficiency.

Given the high production cost of local content, the need to contain those costs through more efficient production methods, the need to deliver commercially saleable product and the reliance that the production industry places on the Australian television industry to acquire its products, there is a need for greater flexibility in the way that television operators are required to comply with local content obligations.

The Seven Network recommends that an option be introduced to permit commercial television licensees to fulfil their quotas for Australian content transmission hours over a longer period such as three years rather than the current unnecessarily restrictive one year. This approach would also enable a better matching of costs as the transition to digital accelerates.

Children's television

The object of the children's television standards is to ensure that children have access to a variety of quality television programs made specifically for them including Australian drama and non-drama programs.

Commercial television broadcasters are required to produce children's programming that meet the ABA's creative and educational requirements. The subjective, excessively interventionist and determinist nature of these standards has distorted program outputs to the point where they have become too sanitised and lost their appeal to a mainstream audience. Children have voted with their remote controls, preferring to watch programs that do not fit the ABA mould or repeats of adult programs such as 'Gladiators' or 'The Nanny'.

Problems arising from restrictions on the nature of children's programming are compounded by the requirement that all broadcasters must televise children's programming at 4pm Monday to Friday. While there is undeniably some

audience for this, the numbers are not high. The result has been a diminution of quality as all three commercial broadcasters fill the time slot with cost-effective, quota-satisfying programming.

The Seven Network is committed to good children's programming and will continue to produce it. However its efforts can be frustrated by an unresponsive and inappropriate regulations. Seven has recently invested significant resources in a new interactive children's television program strand emanating from its Brisbane production centre, "The Big Breakfast". However an example of the current conundrum on children's programming is that the new strand does not fit within the ABA's guidelines. This process of good and popular programs not fitting within rigid guidelines will increase as digital television arrives. Pay TV is likely to see more rather than less foreign programming. Australian networks and operators need to be able to compete for Australian children's attention with quality product that incorporates high production standards. It can only do so within flexible guidelines. Such anomalies will increase with the advent of digital television and multichanneling as increasingly specialised and targeted program genres emerge.

The Seven Network recommends that, if Australian broadcasters are to be able to compete for Australian children's attention with quality product that incorporates high production standards in a digital era, the ABA guidelines must be revised to reflect broad audience realities not individual preferences.

The Seven Network recommends that the Productivity Commission identifies and articulates the social, economic and cultural roles and functions of the Australian commercial television industry as a necessary precursor to examining the appropriate regulatory structure to facilitate the fulfillment of those roles and functions.

DIGITAL TERRESTRIAL TELEVISION BROADCASTING

A July 1999 Report by the Tasman Institute into Competition and Content (Attachment 3) commented[4] that by 2005 Australia can expect at best a 10% market penetration of digital HDTV and 20% digital Standard Definition TV. 70% of viewers will still rely on their analogue television receivers. If the digital conversion of terrestrial television is to be completed by 2008 or earlier some policy shifts and incentives are essential to accelerate the transition.

The Seven Network supports the need to amend the Digital Terrestrial Television decision to give broadcasters the option to use the digital capacity to deliver multichannel services in standard definition format consistent with developments in Europe and elsewhere, and that the distinction between datacasting and other service types be removed.

[4] Tasman Institute Report *"Competition and Content"*. Melb. July 1999 p.39

The standard for Integrated Receiver Decoders (IRD's) should also be amended to ensure that it is entirely compatible with one or other of the two emerging world standards - the European Digital Video Broadcasting (DVB) standard or the American Advanced Television System Committee (ATSC) standard A/53. Given that the clear preference of our technical committees to date has been for the DVB standard, the Australian system should be fully compatible with that standard (i.e. in terms of its audio system, multichannel capability etc.) The economic and social costs of diverging from that standard in any way far outweigh any perceived and marginal "quality" benefits.

Digital reception equipment, whether it be in a set top box or integrated into the television receiver, must not be unique to Australia. A unique system would deny to Australia the economies of scale available in larger markets, delay availability of chipsets and customer equipment, deny us access to export markets should any local manufacturers emerge, drive up the cost to industry and consumers and thereby delay the rate of penetration of digital technology in the market.

The Commission sought supplementary information regarding flexibility in the US regime to give broadcasters the choice to multichannel or deliver HDTV and early market experience with the sale of set top units. The Office of Engineering and Technology at the US Federal Communications Commission (oetinfo@fcc.com) has confirmed that

- the US regulations permit broadcasters to exercise the option to provide either High Definition TV or Standard Definition TV combined with "multi-channels" to carry a range of services

- while it is still early days it appears that DTV consumer preference has been for the cheaper set top box that enables SDTV and multichannelling rather than the more expensive HDTV system

    : further information is being sought from the Consumer Electronics Manufacturers Association.

Regarding general questions on the nature, cost and capabilities of DTV, attached (Attachment 1) for the information of the Commission is a "Digital Television Consumer Information" Q&A sheet promulgated by the FCC in November 1998. The Commission's attention is drawn in particular to

- at Section 2 *"the DTV system also will allow broadcasters to transmit multiple programs simultaneously using a single television channel. TV stations will, depending on the type and source of programming, be able to transmit multiple SDTV programs or in some cases two HDTV programs. DTV also will provide improved audio quality, similar to that of compact discs, with up to five channels of sound per program. The new system will also support delivery of digital data services simultaneously with television and audio programming".*

- at section 4 *"the DTV channel will allow consumers to receive new and improved services with new DTV sets or with special converter boxes that will allow some DTV programs and services to be viewed on existing analog sets. Roughly 1/2 of the nation's households should be able to receive DTV service by the end of 1999, and everyone else will have access by 2002."*

- at Section 7 *"in general, to enjoy the full benefits of DTV such as wide screen, higher resolution pictures you will need to purchase a new DTV set. Existing television sets will not be able to display DTV signals. However, it is expected that less expensive converter boxes will be available that will allow you to watch standard definition DTV on an existing TV set. These boxes will receive DTV signals and convert them to the transmission system used by existing TV sets. The pictures received through these converter boxes should be clear of the "ghosts," and other interference that are characteristic of today's analog TV service in some areas. These converter boxes also will allow any new DTV programs (i.e., programs that are not also available via traditional analog service during the transition) to be displayed on existing TV sets. However, because most existing TV sets were not designed to display high resolution pictures, converter boxes will not be able to provide the higher HDTV picture quality that will be available on new DTV sets. Also, it is possible that some new DTV sets may be marketed that will not be able to display all DTV formats. For example, some DTV sets may not be able to display HDTV signals at their full resolution potential or some sets may not have the new wider screen size. Consumers should be aware of these format differences in selecting DTV sets and should ask electronics retailers to fully explain the capabilities of new DTV equipment."*

- at Section 8 *"just as color sets were expensive when they were first introduced in the mid-1950's, the new DTV sets will be expensive at first. However, manufacturers have indicated that they expect prices to fall over time. As noted above, consumers also will have the option of obtaining a converter box that adapts an existing set to digital service. The price of these boxes is expected to drop significantly during the transition to full DTV service."*

The Seven Network recommends that urgent action be taken to amend the Digital Terrestrial Television decision to give broadcasters the choice of multichannelling and consumers the option of a less costly and swifter transition to the new technology. Action must also be taken to ensure full compliance of IRD's with the appropriate world standard before broadcasters and retailers have committed to ordering equipment.

CONCENTRATION OF MEDIA OWNERSHIP

The Wattle Park Partners submission proposed that regulatory oversight of ownership and control in the media be transferred to the ACCC. It further recommended that industry specific provisions be inserted into the *Trade Practices Act 1974*, similar to those governing telecommunications at Part XI,

that would provide legislative guidance to the ACCC in deciding issues of competition, market concentration and market power in the media communications market. It also proposed that further research be undertaken to identify and quantify appropriate thresholds. The Productivity Commission has sought elaboration of this concept.

A 'Substantially Lessening Plurality' Test

The need to provide the ACCC with some industry specific regulatory tools to address competition issues in the media market arises because the public policy objective that underpins the need to establish threshold limits within and across media market sectors is not an issue of pure competition as traditionally addressed in the *Trade Practices Act 1974*. In addition to competition, the ownership limits are designed to encourage plurality of ownership as a means to achieve the important social and cultural goal of diversity of opinion that is fundamental to the preservation of a pluralistic democracy.

The test traditionally applied by the ACCC when examining anti-competitive practices is whether an agreement, action, acquisition or merger would have the effect of substantially lessening competition in the market in which the businesses operate.

An option suggested in the Wattle Park Partners submission to address anti-competitive behaviour in the convergent media communications was to develop a wider market definition than the narrow interpretation implicit in recent decisions by the Commission. This concept has considerable merit as there is an increasing acceptance by international regulatory and other organisations that the phenomenon of convergence has irrevocably blurred market boundaries in the media and communications industry. The OECD in its 1999 Communications Outlook commented at length on the importance of accepting a wider market and hence applying consistent and cohesive regulation.

An alternative to reliance on a wide market definition may lie in adoption of a different approach to addressing competition in the media communications market. This would involve incorporation into the *Trade Practices Act 1974* of a "convergence of ownership" rule where the test would derive from whether an agreement, action, acquisition or merger would be **"…likely to substantially lessen plurality …"** of ownership and thereby lessen diversity of views available in the media market. Such a provision would replace specific cross media rules in the *Broadcasting Services Act 1992* and would be a more appropriate instrument that is consistent with the role and functions of the ACCC.

The Seven Network recommends that a "convergence of ownership" rule be developed for inclusion in the *Trade Practices Act 1974* that incorporates a test as to whether an agreement, action, acquisition or merger would be "…likely to substantially lessen plurality …" of ownership and thereby lessen diversity of opinion in the media market.

An Accretion of Actions

The ACCC is often constrained by the need to confine its deliberations to a particular circumstance or instance of market activity. This can result in ACCC intervention being subverted by a temporary discontinuation or adoption of an alternate course of action that has a similar effect. This is particularly constraining in the media and communications market where a participant can exert market power across a range of market segments - for example Pay TV, commercial television, magazines, the Internet and gateway carriage services - and, while not demonstrably dominant in one segment, possesses and exercises substantial market power, if not market dominance, through the capacity to act across all market segments.

The Government has moved recently in other areas to overcome this weakness in the regulatory regime. In the case of competition notices in the telecommunications sector amendments in the *Telecommunications Amendment Bill 1998* will provide for an in-context definition of the anti-competitive conduct as opposed to the traditional approach of focus on a specific instance. This will allow examination of conduct in conjunction with other conduct to consider whether the accretion of action will have the combined effect of substantially lessening competition.

This is precisely the nature of the powers that should be vested with the ACCC when dealing with the media market as the problems for competition policy derive from convergence within the industry, the consequent blurring of the boundaries between the market segments and activity by industry participants across a number of narrow but interdependent market segments to achieve anti-competitive outcomes.

The Seven Network therefore recommends that the *Trade Practices Act 1974* be amended to enable the ACCC to examine conduct in conjunction with other conduct in order to decide whether the accretion of action will have the combined effect of substantially lessening competition in the media communications market.

Methods to Measure Media Markets

Regardless whether adoption of a wider market definition or application of a "…substantial lessening of plurality .." test is preferred, the competition regulator will still need to develop tools to enable it to measure market ownership, market

power and establish market concentration limits. The Wattle Park Partners submission identified the "audience" measure as being the most reliable and readily quantifiable, although weighting and other issues require further examination.

The "… substantial lessening of plurality …" approach would not initially lend itself to hard and fast rules or numbers. Specificity of regulation may deliver industry certainty but it also provides considerable scope for evasion. Rather the ACCC would be required to take into account a range of variables when examining a particular circumstance. The elements of that examination by the ACCC could involve

1) identification of the actions/conduct (if more than one) that gave rise to the potentially anti-competitive conduct or negative impact on plurality

2) identification of all segments of the converged media market that should be taken into account in examining the issue including
   - commercial television, Pay TV, radio. Newspapers, magazines, telephone companies, Internet activities, carriage service providers, content suppliers etc

3) identification of the appropriate "measure" to be used to quantify the magnitude of the market share controlled or market power exercised in each segment (based on consumer usage of the particular segment) including
   - for newspapers, circulation
   - for commercial television, audience reach
   - for radio, audience reach
   - for magazines, type and circulation
   - for carriage services, homes passed
   - for Internet operators, nature of the service
   - for telephone companies, market share.

3) assessment of the "power to influence", or weighting, of each segment within the market derived from such measures as
   - ratings
   - nature of service (news vs music vs general entertainment vs sport)
   - ownership
   - revenue per subscriber.

4) examination of other aspects of a participants power in the market and ability to leverage that power across markets including
   - associations
   - market alliances
   - financial resources
   - demonstrated market conduct.

The Seven Network recommends that the range of variables to measure market ownership and market power identified in this submission be refined and incorporated in amendments to *the Trade Practices Act 1974* as legislative guidance to the ACCC when considering competition and plurality issues in the media market.

ACCESS TO CARRIAGE SERVICES

The Seven Network is a significant producer and owner of original Australian drama, entertainment, sports and children's programming. It has access to significant program libraries and rights that would add significantly to the diversity of program material in the market available to Australian consumers. We hope to make this material available through free-to-air multichannel and through subscription services.

Unfortunately a situation has arisen whereby legitimate access to carriage service infrastructure , particularly analogue broadband cable infrastructure, is being denied to independent content service providers. The letter and intent of the pro-competitive provisions of the telecommunications access regime in the *Trade Practices Act 1974* are in danger of not being adhered to by those that now control the broadband communications gateway to Australian homes. This issue is becoming more pressing as the Sydney 2000 Olympics approach. Australian viewers risk being denied the full range of multichannel services and program options that will be available to overseas audiences.

Seven has approached Foxtel to seek distribution of its program material. Access should be granted as a matter of course by virtue of the provisions of Part XI of the TPAct that were specifically intended to facilitate such access by declaring it an "active declared service". The access regime was a fundamental competitive safeguard that underpinned the Government's rationale for the partial privatisation of Telstra.

The rational commercial objective of carriage service providers (as opposed to content service providers) in an open and competitive market should be to maximise the number of content service providers utilising the carriage service. This is consistent with commercial practice in developed nations that have mature cable infrastructure. Cable networks in the USA, UK and Europe carry content from a wide range of sources and offer carriage services to any content service provider who seeks commercial access. This approach maximises the revenue potential of the infrastructure and optimises its economic use. Spectrum, as a renewable resource, has its potential economic benefit foregone at each point in time where it remains unused.

Conflict arises when a carriage service provider is also a content service provider. In the latter instance the predominant commercial objective is to be the monopoly service provider in the market. Denial of access to the carriage network by the joint carriage and content service provider to other potential content service competitors, and hence denial of their access to potential subscribers, helps entrench a position of market dominance in each vertical market segment. This enables the joint service provider to dictate to the consumer on type, availability, content, quality and price of both carriage and content of services.

In relation to the broadband carriage services provided by Telstra Multimedia this conflict of commercial objectives may exist between the joint owners of Foxtel - PBL, News Corporation and Telstra.

To further strengthen its position in the market for Pay TV carriage services vis a vis Optus, Telstra, through Foxtel, has joined with News Corporation and PBL and used market leverage to acquire a superior program lineup. It has hence been able to attract a much larger subscriber base (in excess of 650,000) to its Pay TV services.

Satellite and MDS carriage service operators would be better placed to compete with Telstra in the market for carriage services if all carriage services were declared services. Both satellite and MDS technologies are capable of carriage of data and voice and of two-way interactivity although the economics of these technologies is still marginal. Access to all carriage service technologies would enable the content services also offered by these operators to compete with Foxtel on a more level playing field. It would enable them to access a larger market including those market segments that have opted to use the cable technology in order to acquire other "bundled" services. If the cable network is not declared these segments of the market will be closed forever to alternative service providers.

It must also be recognised that the Telstra network has been built with taxpayer funds at a cost in excess of $4 billion dollars (BTCE estimates). The network was built with a range of regulatory exemptions and protections that are not available to a new market entrant. Existing networks have a 98% overbuild and further developments are at a standstill. In the light of experience with broadband cable rollout by Telstra and Optus in Australia it is highly unlikely that any other operator would attempt to rollout such a network. Yet the ACCC has acknowledged that cable has a competitive advantage over other carriage service technologies as it is *"… generally considered by the pay television industry as a superior means of delivering pay television services because of its greater capacity and functionality."*

The Communications Futures Project conducted by the Bureau of Transport and Communications Economics in 1993-94 and subsequent quantitative analyses

have established that it is uneconomic to rollout broadband networks solely for the purposes of delivering Pay TV. UK cable networks have demonstrated in a short period of time that telephony is the economic driver of profits on these networks provided the chosen technology works to deliver telephony and, to a lesser extent, data services. In the UK cable operators have been successful in a way that Optus cannot because they opted to use "Siamese cable" technology -twisted copper pair cable to carry telephony embedded in a single sheath with coaxial cable to carry Pay TV. They constructed, in effect, two separate networks operating in parallel using mature, reliable and least cost technology.

The Seven Network recommends declaration of the broadband cable, satellite and microwave networks as active declared services. Failure to declare these carriage services will entrench a duopoly, and eventual monopoly, in both carriage and content service provision for Pay TV. There will be insufficient market power by other players to constrain pricing and output decisions. The long term interests of end-users will not have been promoted.

SIPHONING

The role of the anti-siphoning provisions of the BSA is to ensure that audiences are able to continue to view significant sporting events that have traditionally been available to them free of charge on free-to-air television services.

The competitiveness or otherwise of these rules needs to be balanced against the public interest of consumers. Sport is a pastime of mass appeal. Most Australians expect to see premium sport free of charge on their television. They regard free access as a right. The drive to “siphon” off an ever increasing number of sports to pay or pay-per-view services disadvantages those many sports fans who cannot afford to pay or who do not expect to have to do so. There has been ongoing bi-partisan recognition in the Federal parliament that this is an access and equity issue. The Parliament has been conscious of the need to avoid creation of an “information rich” who can afford to pay to view their favourite sport and an “information poor” who cannot.

Some concerns in relation to the list will be alleviated with the passage of legislation recently introduced into the Parliament. This legislation requires that free-to-air broadcasters with exclusive rights to a live event either show it live or offer the unused rights to the ABC and SBS for a nominal charge. These changes are being implemented to prevent broadcasters from refusing to televise some of the listed programs to which they have acquired the rights, such as Nine's refusal to broadcast live the first sessions of the Ashes cricket tests in 1997, in favour of screening regular evening programs.

The Seven Network has not abused the provisions or intent of the anti-siphoning laws in the BSA. At the beginning of each sporting season Seven Network programming managers meet with the various sporting bodies to schedule

telecasts and to avoid, as far as practicable, any clashes between events. Having regard to its other programming commitments the Seven Network seeks to ensure that its program schedules maximise public access to as much sport as possible.

Pay TV interests have proposed abolition of the siphoning list or revised arrangements where free to air broadcasters could not purchase pay rights. This is a predictable position given their commercial interests. However a major conflict may arise when the Pay TV broadcaster is in partnership with a free to air broadcaster. In that circumstance they can operate together to ensure exclusive acquisition of both forms of rights. This outcome is more likely and more anti-competitive when those parties also control access to carriage services such as the cable networks. In this circumstance those parties exert enormous market power and are likely to dominate the market as they are the only ones that can guarantee to a sporting rights holder that their sport will receive maximum exposure in both free and pay mediums as well as enjoy the benefits of cross promotion on each. If a third party was to acquire the rights the "gatekeepers" could deny market access and destroy the commercial value of those rights.

Commercial television broadcasting services are available Australia-wide and, most importantly are free. It is, therefore, imperative that the anti-siphoning rules are maintained to protect the public interest in ensuring that all Australians are able to receive programs of national importance and cultural significance, and to receive those programs at no cost.

The Seven Network recommends that, in the interests of fair competition and the rights of consumers to access key sport free of charge, the anti-siphoning rules be retained and consideration be given to preventing those that control access to the carriage services from also acquiring exclusive rights to program material.

FOREIGN INVESTMENT

When considering foreign ownership issues it is important to differentiate between passive investment for profit, ownership and control.

Treatment of Investment Funds

The Seven Network is a major commercial source of independent news, information and entertainment in Australia. However, in a national market subject to increasing monopoly pressures and in a global market that is increasingly inter-linked, Seven believes that capital formation within markets is becoming a key to survival. One principal driver towards concentration of ownership in smaller markets such as Australia has been the low levels of capital available to make new investments, remain strong and resist takeovers.

The present limitations, particularly those in the BSA, have implications for the future funding of the media companies (particularly having regard to the large

capital costs as a result of changing technologies) and illogical disparities in the market - not just within the media industries, but across all industries where there are limits on foreign ownership.

The Qantas, Telstra and Airports Sale legislation included as 'Australian' a person (no matter if foreign) in the capacity of a trustee or manager of a fund in which the total interests of Australian persons represents 60 per cent or more of the total interest in the fund. Seven submits that similar provisions should be included in the media laws.

Where fund managers typically hold their investments as a portfolio investment and do not actively seek to control the operations and affairs of the companies in which they hold shares, this should be recognised. The law should recognise portfolio holdings, as Treasury did when it allowed Tyndall and BT under its Foreign Investment Policy to have a greater than five per cent interest in Fairfax ordinary shares, provided that they limited their voting rights to five per cent.

In a supplementary submission to the Commission FACTS set out its arguments in favour of changes to the foreign investment restrictions in the BSA. As with other submissions put before the Commission, FACTS has argued that foreign-owned funds managers should be able to invest in Australian media on behalf of their investors.

FACTS proposed that investment funds with a majority of Australian funds under management by a foreign-domiciled company be permitted to invest in Australian media without being restricted by virtue of the foreign ownership provisions.[5]

The Seven Network recommends that investment funds managed by foreign owned funds for Australian investors should not be considered foreign for the purposes of the *Broadcasting Services Act 1992, Foreign Acquisitions and Takeovers Act* or Foreign Investment Policy.

Treatment of Financial Instruments

If one adopts the view that active foreign control over Australian media assets is the crucial issue, then there are a number of legal instruments that could be applied in all media sectors as being irrelevant to the foreign control issue. They include :

- non-voting shares: These are ordinary shares that do not carry a right to vote. They are excluded from the determination of foreign ownership in some jurisdictions, such as Canada.
- preferred shares: These are shares that only carry with them a right to vote in certain limited circumstances, not making them 'voting shares' for the purposes of the Corporations Law. An example is the preference shares

[5] FACTS, Australian Investment in Australian Broadcast Media Submission, 26 May 1999, p7

that News Corp has on issue. It is understood that Treasury, in applying its Foreign Investment Policy for newspapers, regards the News Corp preference shares as a portfolio investment as they do not have any voting rights except in limited circumstances and are not taken into account in the application of the 25 % individual/30 % aggregate foreign ownership test for non-portfolio interests under that policy.

Under current arrangements for commercial television such preference and non-voting shares:

- would give rise to company interests under the BSA and are, therefore, taken into account in the free-to-air and/or pay television foreign ownership tests under the BSA even though they do not bear on control
- are taken into account under the FATA; and
- are not currently taken into account under the Foreign Investment Policy.

Another option is convertible and subordinated debentures. These are quasi-equity instruments being subordinated debt, ranking behind other creditors but equally with shareholders, with an economic return approximating the dividend payout on ordinary shares with a right to convert into ordinary shares if permitted by legislation (eg if converted in favour of an Australia). As they are non-voting securities the same principles could apply as for non-voting and preference shares. They are treated as quasi-equity under the Foreign Investment Policy.

By adopting a range of measures relating to the type of interest a person holds in a media company it is both possible and desirable that a scheme of foreign ownership without control is developed to encourage greater diversity of ownership in Australia's media while retaining our cultural identity through the implementation of strong content regulations for foreign investors.

The Seven Network recommends that appropriate financial instruments including non-voting shares, preferred shares, convertible and subordinated debentures be accepted as legitimate avenues for passive investment in Australian media companies without giving rise to foreign ownership and control triggers.

Foreign Investment Limits

Traditionally, the debate over media control in Australia has seen a balance between the need for diversity on the one hand and the need for the maintenance of Australian culture on the other. Both values are built into the provisions of the BSA. To maintain some semblance of both values it has been common to prefer increasing concentration in Australian hands (losing diversity) rather than accepting higher levels of foreign equity participation that may risk losing control of program content and hence losing "Australian-ness".

There are several reasons to question this assumption :

- the increasing concentration of media in Australia

- the increasing incidence of transborder broadcasting
- Australians' experience of local content is well-entrenched, popular and likely to act as a market requirement for new entrants
- Australian companies increasingly need to play in a world television market
- transnational companies such as AT&T and Microsoft are likely to enter national markets with a variety of content options, and
- there is evidence that some foreign broadcasters can be attracted to significant investment in local programming.

In these circumstances it is appropriate that higher levels of foreign equity participation in Australian media assets be permitted, particularly if plurality of ownership is to be encouraged. This can be done in a manner that would not lead to foreign control, placating any concern at the risk of foreign control of editorial or other content.

The Seven Network recommends that, in the interests of plurality of ownership and diversity of opinion, and to diminish the risk of further concentration of ownership, increased foreign equity participation in Australian media be encouraged through

- raising the limit on foreign equity investment in Australian media enterprises to an aggregate 49% company interest
- restricting individual foreign ownership to 14.9%
- retaining the existing prohibition on foreign control, and
- vesting regulatory oversight of foreign ownership and control provisions with the Treasurer in consultation with the *Foreign Investment Review Board* operating under the provisions of the *Foreign Acquisitions and Takeovers Act.*

Foreign Contribution to Australian Content

In order to encourage a commitment to local programming in return for profit potential from foreign investment, it is possible to construct a system that elicits a contribution by the foreign investor to the production of local content.

In this context the Seven Network commissioned a study from the Communications Law Centre of the activities of various "foreign" broadcasting companies in selected markets – all with strong requirements for local content and maintenance of national cultural values – to assess performance. The report is attached as Appendix 2.

The report found that local programming is undertaken by foreign owners for a number of commercial, regulatory and political reasons. Commercial imperatives can drive local programming levels in different directions. The small New Zealand market severely limits the capacity of broadcasters to finance expensive program genres. In contrast the French company Canal Plus' needed to fill the

distribution channels it has established with the launch of digital satellite services in several territories and has consequently become the largest single investor in Spanish feature film production.[6]

The CLC also concluded that foreign owners are sensitive to local political imperatives, such as the desirability of sustaining levels of local programming (eg Canal Plus in Italy). They have also proved adept at influencing political processes to ensure reasonable commercial terms for investments, such as the liberalisation of foreign ownership laws in New Zealand and the light-handed administration of European program quotas for BSkyB in the United Kingdom.[7]

The CLC found that the greatest contributions to local production industries are made by foreign owners who are subject to transparent licence conditions.[8]

In order to ensure that the foreign-owned services make a significant contribution to the development of Australia's cultural identity as a quid pro quo for liberalised equity investment that enables them to share in the profits, a number of measures can be implemented.

French broadcasters, for example, are subject to rules requiring investment in audiovisual production. A 1995 Decree permits broadcasters to negotiate an agreement to invest a higher level of funds in the production of audiovisual works in return for a reduced obligation to broadcast such works during prime time slots. While this Decree applies to all French broadcasters, it could be adapted in Australia to require those commercial television broadcasting services with significant foreign equity investment to fulfil certain levels of Australian program production.

The Seven Network recommends that the Commission or other appropriate body investigate the benefits of a contributory scheme to local production by foreign investors as a quid pro quo for the profit potential of increased levels of foreign investment in Australian media assets.

EXPORT OF AUSTRALIAN PROGRAMS

Two recent times studies demonstrate the contradictions in world trade in television product. A highly-reviewed work in the US, Benjamin R. Barber's "Jihad versus McWorld" (Ballantine, NY, 1996) analyses two conflicting cultural streams occurring in the post-communist world: the drive to globalise culture with American (particularly television) exports and the concurrent demand for localism

[6] Communications Law Centre, *Foreign Ownership and Local Programs: An Assessment of Some International Television Broadcasters*, Research Paper for the Seven Network, June 1999, p2
[7] Communications Law Centre, *Foreign Ownership and Local Programs: An Assessment of Some International Television Broadcasters*, Research Paper for the Seven Network, June 1999, p3
[8] Communications Law Centre, *Foreign Ownership and Local Programs: An Assessment of Some International Television Broadcasters*, Research Paper for the Seven Network, June 1999, p12

in the arts, entertainment, media and crafts. By way of contrast, a 1999 UK Government report by the Department of Culture, Media and Sport, “Building a Global Audience”, lamented the decline in British television’s ability to sell itself abroad.

Unfortunately it is the UK, not the US, trend that is occurring in Australia. Australian production companies continue to suffer as a result of a decline in overseas sales. The era of “Neighbours”, “Home and Away” and other Australian series and soaps dominating European screens appears to be waning.

This trend is not just a reflection of consumer tastes in European markets. The growth of digital television and the increased demand for product saw European media companies agree to American long-running “output deals” that not only secured top-rating prime-time shows like “ER”, “Chicago Hope” and “X Files” but also a plethora of lesser product that demanded scheduling. These deals have increased the flood of American material onto the European market, squeezing out Australian and other less powerful product..

At the same time the growth of the European Union has seen a strengthening of agreements across the continent to enhance local product on television screens. This trend to localism is no doubt in part a reaction to the McWorld phenomenon. Local cop and medical dramas have not only met EU and national content quotas and proven to be ratings hits but also further reduced the market for Australian product.

There is some indication that the era of the output deal is coming to a close. European media companies are becoming increasingly sceptical of such deals and are attempting to restrict their commitments in a newly-competitive digital era. The popularity of local programming remains a trend that appears likely to continue well into the future.

This situation has made the task of selling Australian television product abroad extremely difficult.

The Seven Network recommends that a major industry-Government joint study be undertaken to examine options to encourage competitive Australian television exports. These may include:

- tax breaks
- exemptions to ACCC rules allowing network co-operation in overseas sales
- Austrade assistance; and preferably
- aggressive negotiation on the industry’s behalf in the next round of GATT negotiations on “cultural trade” in November 1999.

AN INTEGRATED PACKAGE

In endorsing the broad recommendations of the Wattle Park Partners submission and putting forward further recommendations in this supplementary submission, the Seven Network is supporting some changes to the regulatory policy settings that could be regarded by some as contrary to its commercial interest. We would not agree with that view in part because our views differ from those of some of our competitors as to the likely future shape of the industry in the digital age and the competitive responses that are necessary to structurally adjust to, and prosper in, that age.

However we would see certain elements of our recommendations as dependent on the concurrent implementation of others. For example

- an early return of the analogue spectrum necessary for simulcasting in the transition to digital terrestrial television could only be countenanced if

  : multichannelling was permitted to create the product differentiation necessary to drive consumer demand

  : the DTB standard is amended to ensure full compliance with the appropriate overseas standard (i.e. it has no elements that are unique to Australia)

  : and the take up rate of digital services by consumers was thereby accelerated.

- removal of existing cross-media limits must not occur without appropriate provisions in the *Trade Practices Act 1974* to prevent any further market concentration and ensure plurality of ownership

- relaxation of foreign ownership must not be such as to enable foreign control of Australian media assets.

Timing and staged introduction of any regulatory changes would also need to be agreed with the industry to ensure that all participants were treated equitably and opportunistic exploitation of the changes that has been a feature of past amendments to media law is minimised or prevented.

August 1999

Foreign Ownership and Local Programs: An Assessment of Some International Television Broadcasters

Research Paper for the Seven Network

June 1999

Communications Law Centre
Sydney and Melbourne

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1. Introduction

This research paper was commissioned by the Seven Network to explore the relationships in television broadcasting between foreign ownership and local programming.

A number of examples have been chosen:

- Central and eastern Europe, where international broadcasters have made substantial investments since the collapse of the Berlin Wall;
- Canal Plus, the French pay TV company which has grown from a single channel terrestrial broadcaster in 1983 to a major audiovisual multinational;
- BSkyB, Europe's second-largest pay TV operator, controlled by News International;
- CanWest, the Canadian-controlled broadcaster, particularly in New Zealand where it operates two free-to-air channels; and
- India, with its mix of domestically-controlled free-to-air services and subscription services operated by foreign and local interests; and
- Thailand and Singapore, where there continues to be significant resistance to foreign broadcasters.

The Chapter on central and eastern Europe was written by Chris Dziadul, who edits the Financial Times Media & Telecoms monthly newsletter *TV East Europe* and wrote the 1998 FT Media & Telecoms Management Report on the television markets of central and eastern Europe. He previously edited *Cable and Satellite Yearbook* and Television Business International Yearbook.

The Chapter on Canal Plus, written by Jock Given, Director Communications Law Centre, draws heavily from Francois Godard's 1998 FT Media & Telecoms Management Report *FT Focus on Canal PlusEurope's Pay TV Pioneer.* Godard is a contributing editor to a number of trade papers including Broadcasting and Cable's *TVinternational* and *Variety Deal Memo.* He published reports about sports on television with Paris' INA and about European television programming with Baskerville Communications in California in 1996. He has written two other FT Media & Telecoms Reports on *Television Programming and Sports Rights in Europe* and *Marketing Multichannel and Pay Television,* both published in 1997.

The Chapter on BSkyB was written by Tim Westcott, a former editor of *Television Business International.*

The Chapter on CanWest in New Zealand was written by Jock Given.

The Chapters on India, Thailand and Singapore were written by Stephen McElhinney, Policy Researcher at the Communications Law Centre.

The Executive Summary of the conclusions reached by the different authors was written by Jock Given and Stephen McElhinney.

The Communications Law Centre is an independent research, teaching and public education organisation specialising in media and communications law and policy. It has offices in Sydney and Melbourne and is affiliated with the University of NSW and Victoria University. It receives program funding from the Law Foundation of NSW and the Australian Film Commission.

Jock Given
Director, Communications Law Centre
July 1999

2. Executive Summary

It is impossible to make definitive predictions about the impact of foreign ownership on local television programming in particular national markets. Different owners have different strategic goals; markets are of different sizes and at different stages of development; audiences vary widely across geography and over time; languages and cultures create unique markets and market segments.

However, a number of conclusions can be drawn from the cases examined in this study:

- Foreign owners or investors have often entered national television markets for the first time at critical moments in the development of television broadcasting systems: after the fall of the Berlin Wall in central and eastern Europe; to introduce pay TV in the UK and many Asian and European countries; and to introduce competition and privately-owned broadcasting into New Zealand television. Their "foreignness", particularly their lack of established relationships in the local market, and the scale of the structural changes they helped to bring about are closely related.

- The influence of foreign media organisations may often have been decisive: CanWest's resuscitation of TV3; the transformation of central and eastern European television from a "relative backwater" to "one of the most dynamic [markets] in the world"; the introduction of foreign investment to support the provision of a wider range of services and programs, including local programs, in some Asian territories.

- Foreign ownership can improve the terms of trade for gaining access to high quality foreign programming, where local rights are acquired as part of a larger buying group.

- The introduction of new terrestrial television broadcasting services into relatively undeveloped television markets (central and eastern Europe and NZ in the early 1990s) has typically seen significant increases in local programming, produced by independents or the broadcasters themselves.

The introduction of new pay TV services has typically seen more modest initial local programming initiatives (eg BSkyB), with some expansion over time in line with growth in revenues. Local sport has been a major expenditure item (where pay channels are allowed to acquire exclusive rights to it), regardless of the identity of the owner of the television service.

- Local programming is undertaken by foreign owners for a mix of commercial, regulatory and political reasons. Commercial imperatives can drive local programming levels in different directions - the small NZ market severely limits the capacity of broadcasters to finance expensive program genres, while Canal Plus' need to fill the distribution channels it has established with the launch of digital satellite services in several territories, has made it the largest single investor in French and Spanish feature film production.

- Commercial imperatives may have a different impact on the performance of the same media organisation in different territories. There is some evidence that Canal Plus and CanWest are both stronger local programmers in their home territories (France and Canada respectively) than in their foreign territories (eg. Belgium and NZ).

- Foreign owners often apply business models which they have used successfully in other territories, with varying levels of success. Canal Plus' up-market image and packaging of consistently-branded channels, and CanWest's low-cost broadcast model provide examples.

- Foreign owners are sometimes sensitive to local political imperatives, such as the desirability of sustaining reasonable levels of local programming (eg. Canal Plus in Italy), but have proved adept at influencing political processes to ensure reasonable commercial terms for investments (eg. the liberalisation of foreign ownership laws in NZ; the reduction of quotas for Canal Plus after two years of losses; the light-handed administration of European program quotas for BSkyB in the UK).

- Local programming regulation has played at least a small part in boosting levels of production and screening of local programs in the territories where it has been imposed (eg. central and eastern Europe, Canal Plus' operations in several territories).

- Local markets are demonstrating demand for locally-produced programs, not just localised versions of foreign channels (eg. India; central, eastern and western Europe).

- Some countries in Asia continue to prohibit or resist the involvement of foreign media organisations in their domestic television industries (eg. Thailand, Singapore).

3. Central and Eastern Europe[1]

3.1 Introduction

Central and eastern Europe encompasses around 20 countries and a population of some 350 million. This study focuses on three territories that have seen the greatest foreign investment in their media since the region's return of democracy almost a decade ago: Poland, Hungary and the Czech Republic.

In Poland, which today arguably boasts one of the most dynamic television industries in the whole of Europe, the running has recently been made by two digital pay-TV services operated by the U.S. company @ Entertainment and France's Canal Plus. In Hungary, on the other hand, the market is dominated by the terrestrial station TV2 (which is backed by SBS Broadcasting) and the MSO Kábelkom (itself closely linked to HBO Hungary), while in the Czech Republic the private terrestrial station TV Nova (owned by CME) and MSO Kabel Plus (backed until recently by US West) are the leading players.

3.2 Description of Services

In Poland, @ Entertainment operates a digital TV service known as Wizja TV which, according to the latest estimates, has around 130,000 DTH subscribers and is also available to a further 800,000 homes that receive the services of Polska Telewizja Kablowa (PTK), central and eastern Europe's largest cable operator.

Canal Plus's rival digital service, which is known as Cyfra Plus, also claims around 130,000 subscribers. Moreover, the company in addition operates an analogue pay-TV channel (Canal Plus Polska) which has around 160,000 subscribers.

In Hungary, the U.S. company SBS Broadcasting, along with its local partner MTM Kommunikátiós and the German production company Tele-München, operate the country's most successful commercial television station TV2.

Kábelkom, on the other hand, is wholly-owned by United and Philips Communications (UPC), itself a subsidiary of United International Holdings (UIH), and supplies cable services to over 200,000 homes. It also has a close working relationship with HBO Hungary, which is a wholly programming company.

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[1] This chapter was written by Chris Dziadul, who edits the Financial Times Media & Telecoms monthly newsletter *TV East Europe* and wrote the 1998 FT Media & Telecoms Management Report on the television markets of central and eastern Europe. He previously edited *Cable and Satellite Yearbook* and *Television Business International Yearbook.*

In the Czech Republic, CME operates the national commercial station TV Nova, which with an audience share of around 50-55% is one of the most successful in the whole of Europe. Kabel Plus, which has just been taken over by United and Philips Communications (UPC), is the dominant cable operator in the country and also has extensive interests in neighbouring Slovakia.

3.3 Ownership

Poland's Wizja TV is wholly-owned by @ Entertainment, which has itself just been acquired by UPC. UPC, which has several other interests in central and eastern Europe, is believed to be about to enter into a strategic alliance with SBS Broadcasting, which is currently one of the leading operators of private TV stations in Europe. SBS Broadcasting is also in the process of acquiring Central European Media Enterprises (CME), the leading investor in commercial TV stations in central and eastern Europe (see below). Canal Plus's Cyfra Plus meanwhile has the backing of the Polish public broadcaster Telewizja Polska (TVP), which recently agreed to take up to 40% in the service. Other potential partners (the local commercial stations Polsat, TVN and Nasza TV), though once linked to Cyfra Plus, have decided not to participate in the venture.

Hungary's TV2 is backed by SBS Broadcasting (49%), MTM Kommunikátiós (38.5%) and Tele-München (12.5%). Kábelkom, which was a 50/50 joint venture between Time Warner and UPC up until June 1998, is now wholly-owned by the latter.

The Czech Republic's TV Nova is wholly-owned by CME , which also owns CNTS, the company responsible for broadcasting the service. TV Nova's licence, however, is held by CET-21, and its owner Vladimir Zelezny, who up until his dismissal in April 1999 was the general manager of TV Nova, is now in dispute with CME.

Although Kabel Plus started off as a wholly Czech-owned company, US West acquired its first stake in it in 1995 and until June 1999 held 97%. This was acquired by UPC for $150 million.

Central European Media Enterprises (CME), initially known as the Central European Development Corporation, currently controls the following stations: TV Nova (Czech Republic), Pop TV (Slovenia), Pro TV (Romania), TV Markiza (Slovakia), Studio 1+1 (Ukraine) and TV3 (a satellite-to-cable channel in Hungary). It is a U.S. investment company which was set up by Ronald Lauder (an heir to the famous cosmetics firm) and Ronald Palmer in the early 1990s. Both Lauder and Palmer knew central and eastern Europe well, having been U.S. ambassadors to Hungary and the former Czechoslovakia in the Reagan era in the 1980s, and were keen to exploit business opportunities in the region

following the demise of communism. Initially they looked at both property and the introduction of commercial TV, but soon decided to settle on just the latter.

CME's first TV involvement was in eastern Germany (in and around Berlin) but proved to be something of a financial disaster. The period 1994-1997, however, was a golden period for the company during which it:

- set up the first national, privately-owned terrestrial TV station in the region (TV Nova in the Czech Republic) in 1994;
- launched Pop TV and Pro TV (in Slovenia and Romania respectively) in 1995;
- launched Markiza TV (Slovakia) in 1996; and
- launched Studio 1+1 (Ukraine) and TVN (Poland) in 1997.

The company nevertheless overextended itself financially and things began to unravel. The first blow came in mid-1997 when it failed to win a national commercial licence in Hungary. The lucrative Polish market then proved an impossible nut to crack (there was already an long-established and successful commercial broadcaster in the country named Polsat) and CME decided to pull out of the country at the beginning of 1999. And finally in April 1999 it was announced that the company would be merging with SBS Broadcasting. Although the deal is not finalised, it will be, in effect, a take-over of CME by SBS Broadcasting.

CME was initially based in Berlin but moved its headquarters to London in 1995. Although Palmer is no longer associated with the company, Lauder still is its head.

3.4 History of Services

The history of Wizja TV and Cyfra Plus are closely linked, with the owners of the two services having played important roles in the Polish TV market for a number of years.

@ Entertainment traces its roots in the country back to 1989 when David Chase, a Polish émigré living in the U.S., decided to build a cable network (now known as PTK) in Poland. PTK's ownership structure was totally revamped in 1997 and led to the creation of @ Entertainment, a company with the sole mission of launching a digital TV platform named Wizja TV.

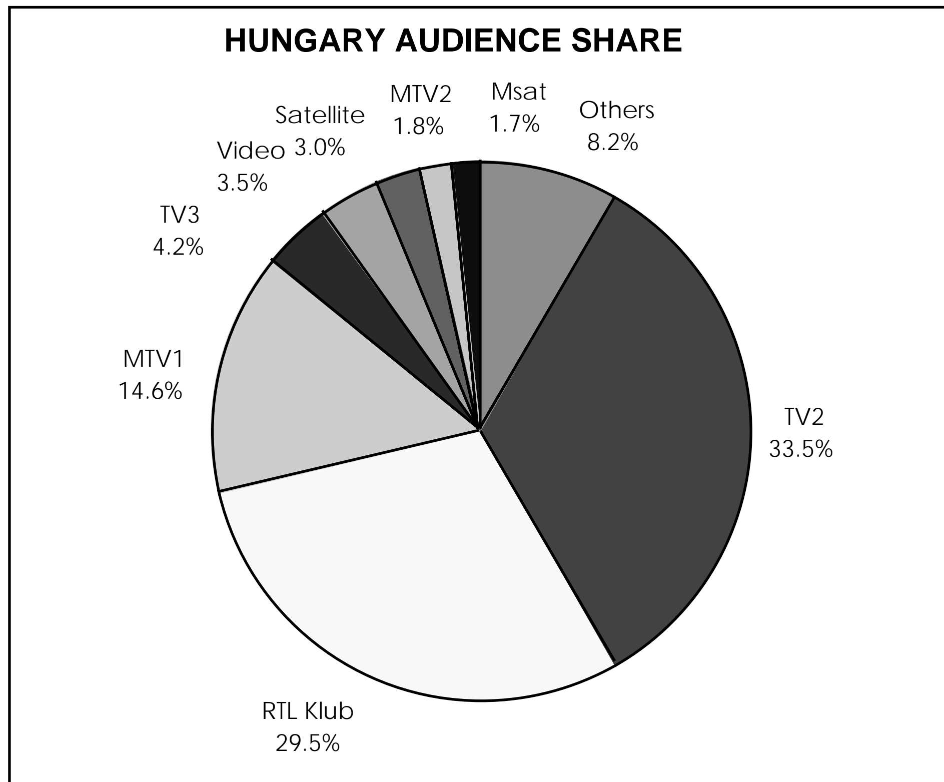
Canal Plus meanwhile was an unsuccessful bidder for a national terrestrial licence in Poland in 1993 but impressed the authorities so much with its plans that it was eventually given permission to operate a pay-TV channel. Launched in March 1995, Canal Plus Polska had the advantage of terrestrial as well as cable delivery and soon built up a large subscriber base.

Canal Plus also planned to launch a digital platform and, following an agreement with @ Entertainment in early 1998, it seemed certain the two parties would work together. However, the deal fell through at the last moment and both companies went on to launch separate services.

Although most industry analysts believe Poland is incapable of sustaining more than one digital platform, the situation has been made even more complicated by the launch of a third by Polsat.

SBS Broadcasting and its partners was one of two consortia (the other being one led by CLT-Ufa) that bid successfully for a national commercial licence in Hungary in 1997. The result of the tender, which drew strong protests from a losing third bidder (Irisz TV, which was backed by CME), is in dispute to this day.

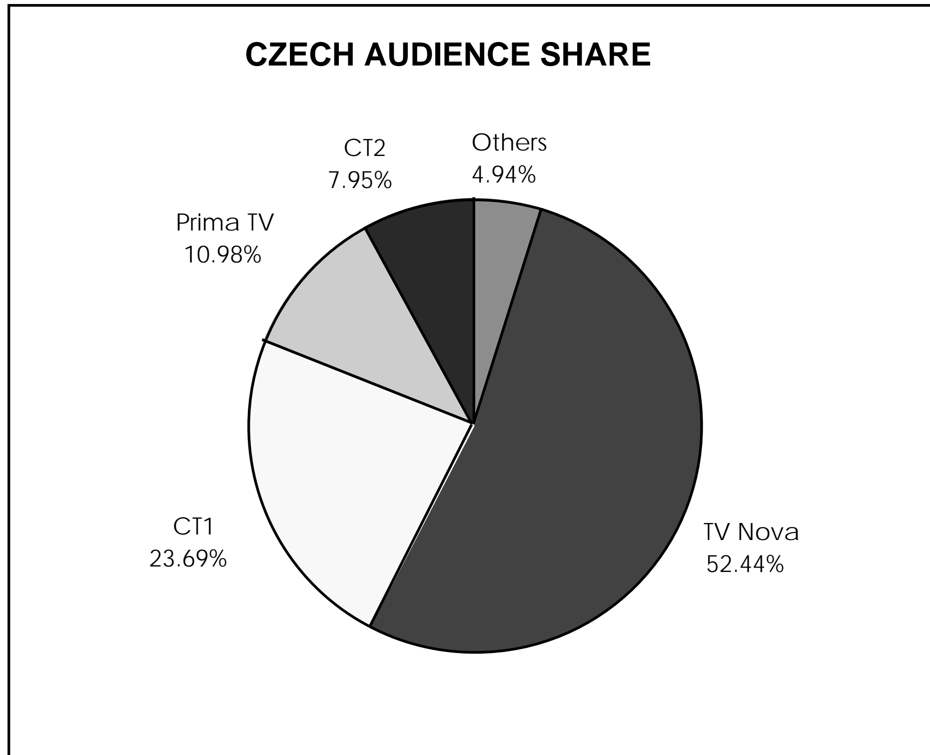
TV2 was launched in October 1997 and took only three months to become the leading broadcaster in Hungary. It currently commands an audience share of around 33-35%, although audience share figures for the first half of this June indicate that RTL Klub has for the first time secured more viewers.



April 1999

Source: AGB Hungary

The Czech Republic's TV Nova was launched in February 1994 and took just 14 months to attain an unprecedented audience share of 70%. Although the introduction of peoplemeters in mid-1997 saw this figure fall slightly, it still commands an unprecedented 50-55% of the market.



April 1999

Source: Taylor Nelson AGB MF-TV projekt-ATO

Kabel Plus was meanwhile formed in 1990 as a joint venture between three Czech parties (Ostrava Cultural House, Czech Insurance Company and KF Ltd) and little-known U.S. hardware firm named International Communications Technologies (ICT). US West made its first investment in the operator in 1995 (securing a 28.5% stake for $19 million) and completed the acquisition the following year.

3.5 Current Services Offered

Wizja TV was launched in September 1998 and today offers viewers 24 channels (of which all but CNNI and MTV are localised) for a hardware and installation charge of PLN399 ($100), followed by a monthly fee of PLN49. An additional three channels are expected to be added to the package in September 1999.

Wizja TV is currently available in just over 130,000 homes that have purchased equipment and expects to have 370,000 subscribers by the end of 1999 and 500,000 by the second quarter of 2000.

Canal Plus's Cyfra Plus ("Digital Plus'), which was launched shortly after Wizja TV, meanwhile offers 19 channels for an installation charge of PLN100, refundable deposit of PLN199 and monthly fee of PLN55. Also received in around 130,000 homes. its programming is expected to be split into basic and premium packages on July 1.

While Cyfra Plus is distributed by Eutelsat, Wizja TV is carried by the Astra satellite system.

TV2 is on air for 18 hours daily and can be received in 90% of Hungary. It accounted for 42.8% of the country's gross TV ad market (estimated to be $200 million in 1998) in the first quarter of this year and is expected to break even before 2001.

Kábelkom is Hungary's leading MSO, serving over 200,000 homes in a market believed to number anything between 1-1.5 million cable connections.

HBO Hungary is the oldest pay-TV service in central and eastern Europe. Distributed by Israel's Amos-1 satellite, it offers 24-hour programming to around 200,000 cable homes.

The documentary-based, basic cable channel Spektrum is on air for 126 hours weekly and available in around 900,000 homes. Z+, which is a 60/40 joint venture between HBO and Warner Music Group (itself a Time Warner subsidiary), is available in at least 800,000 homes.

TV Nova, which is on air for around 19 hours daily and can be received in the whole of the Czech Republic, had an average audience share of 51.9% in 1998. It also increased its domestically-produced programme level from 35% to 44% of the total during the year, making almost 1,000 entertainment-based programmes in the process.

Despite the current upheavals at the station, along with the general economic downturn in the Czech Republic, it still remains CME's principal "cash cow".

Kabel Plus was launched in the northern Czech town of Ostrava in 1990 and currently has around 331,000 subscribers in the Czech Republic and an additional 113,000 in neighbouring Slovakia. Those in the Czech Republic are offered a 'Mini', or lifeline, package consisting of 10 channels in Prague (and 7-10 in other parts of the country, for CZK89 ($2.47) a month and a 'Klasic', or extended basic package of between 25-30 channels for CZK240 a month. At the

beginning of 1999, 96,000 subscribers in the Czech Republic (plus 48,000 in Slovakia) received the Klasic package and 52,000 (of which all but 6,000 were in the Czech Republic) paid an additional amount (believed to be in the region of $6-8 a month) to receive the premium channel HBO Czech.

3.6 Programme Strategies

@ Entertainment's Wizja TV claims to be the fastest-growing digital platform in Europe despite facing strong competition from Canal Plus's Cyfra Plus. Its programme offer certainly shows a great deal of innovation, combining localised versions of foreign channels (such as Hallmark, Fox Kids and Discovery) with a number of completely new services. These include the proprietary channels Wizja 1, Twoja Wizja and Wizja Pogoda (Poland's first-ever weather channel), along with Le Cinema and E!, both of which are backed by the UK-based distribution company Zone Vision.

Wizja TV is distributed to Poland by satellite (@ Entertainment's headquarters are in Maidstone, UK) and so is not required to respect any Polish programme quotas. However its subsidiary company Wizja TV Spólka Produkcyjna expects to spend around $50 million a year on film and television production as well as acquiring the rights to sports events. In practice, around 20% of this amount will be allocated to films (the company's first title, directed by Andrzej Wajda, is due to go on general release later this year) and most of the remainder on acquiring programming for Wizja Sport, a new proprietary sports channel expected to be launched in September. Poland has signed the European Union Television Without Frontiers Directive requiring its TV channels, including those uplinked from the UK, to comply with the Directive's European and independent program quotas.

@ Entertainment can, with some justification, also point to the high local programme content of some of the channels in the Wizja TV package. These include TVN, a Polish commercial station which up until the beginning of 1999 was backed by CME, and the premium channel HBO Polska.

TVN is best known for its flagship programme Fakty (the main evening newscast) and such shows as Miniplayback and Zostan Gwiazda, which are both licensed from the Dutch company Endemol. HBO Polska, on the other hand, offers HBO Na Stojaka (the only stand-up comedy show on Polish television) and is committed to spending at least $10 million on Polish film and television productions in the next five years.

Canal Plus initially secured a licence to operate a pay-TV channel in Poland (Canal Plus Polska) after having agreed to invest heavily in the local film industry. This it has done with some gusto, with its subsidiary company Film

Plus having already spent at least $7 million on a string of box office hits including one (Kiler) which is being remade in Hollywood.

On Canal Plus Polska itself, European productions (of which 40% are Polish-made) currently account for around half of its total airtime.

Canal Plus has been keen to secure the backing of several key local partners in its digital project and at one stage appeared to have reached agreements with Polsat, TVN, Nasza Telewizja (a regional commercial station), Aster City (Poland's second largest cable operator), Telekomunikacja Polska (the national telecom operator) and publicly-owned TVP. In the end, however, it only managed one with TVP, which will take a stake of up to 40% in Cyfra Plus and also develop two channels offering information and culture-based programming.

Canal Plus's failure to secure Polsat as a backer may nevertheless prove to be costly, since the commercial station has gone on to launch its own digital package and sign an agreement with @ Entertainment.

In Hungary, the success of TV2 can largely be attributed to the station's policy of making full use of MTM-produced programming (including Wheel of Fortune) and the agreements SBS Broadcasting has with a string of leading distributors. The latter include such majors as Disney, Paramount and Universal, along with the BBC, Venezuela's Venevision and Germany's ZDF and Beta Taurus.

Although TV2 is always keen to point out the importance it attaches to news, entertainment-based programmes such as the locally-produced Dáridó and German/Austrian crime series Rex Felügyelo continue to attract its highest ratings. Among its other popular programmes are Kakok Show, Dream Story and a Hungarian version of the King World format Hollywood Squares. Significantly, almost all of TV2's leading local programmes, with the notable exceptions of the news and Kakok Show, are made by independent Hungarian producers rather than the station itself.

It has also started to produce local soap operas (a relatively new genre in Hungary), having launched one named Channel 7 earlier this year and is shortly expected to begin shooting a second jointly with a German company.

TV2's nearest competitor is RTL Klub, which thanks to the backing of CLT-Ufa and Pearson is itself able to draw on programming obtained from Walt Disney, Warner Bros, Universal (especially a Spielberg package) and Germany's RTL. Its highest rated programme at present is the Mexican telenovela Esmeralda.

The premium channel HBO Hungary, which is distributed by Kábelkom and around 70 affiliated companies, has meanwhile recently decided to offer its

viewers a more movie-based schedule. As from the beginning of this year, it has also been a commercial-free service, largely as a response to the increasingly competitive market conditions that have existed in Hungary since the launch of TV2 and RTL Klub.

HBO's documentary channel Spektrum carries separate programme strands dedicated to science and technology (Spektrum Radar), history (Spektrum Time Machine), travel (Spektrum Atlasz) and nature (Spektrum Green Zone), while its music channel is modelled on a German service named Viva.

As part of the Time Warner group – and a worldwide network of pay-TV operations – HBO Hungary is able to access a large library of programming. It appears to place little if any emphasis on local productions (unlike its sister station in Poland, for instance, which competes directly with Canal Plus) and is trying to increase its hitherto low penetration in Budapest, the country's most lucrative market.

The Czech Republic's TV Nova was the second national commercial TV station to be launched in central and eastern Europe (after Polsat in Poland) and achieved almost overnight success thanks to the strength – and indeed novelty – of its programming. Having signed long-term agreements with both Hollywood majors and leading European distributors, CME was able to offer the channel's viewers material they had never before seen on publicly-owned Czech TV.

Within two years, however, TV Nova made a decision to focus increasingly on local productions. This was in keeping with the policy being pursued by other CME stations and arguably a response to a shift in viewers tastes: the novelty value of foreign programming was starting to wear off and Czech productions were proving to be increasingly popular.

Today, TV Nova's most successful programme is its flagship news bulletin Televizni Novini, which averages a rating of almost 40%. The talk show Novoty, however, often secures higher viewing figures.

The station has also introduced locally-produced sitcoms into the Czech Republic, enjoying exceptional success with Novaci and more particularly Hospoda, and is currently working on a Police Academy-type comedy set in a Prague police station.

Furthermore, it is believed to be engaged in talks with an unnamed German company that could result in the co-production of a hospital-based series similar to one first shown in the former Czechoslovakia in the 1970s.

TV Nova's commitment to local programming also extends to film production , with the station making between two and four new titles a year.

While the possibility of selling its productions to other CME stations is always on the agenda, both they and TV Nova prefer to obtain their acquired programming from outside sources. Programme buying for the network as a whole is undertaken by a wholly-owned CME company named CME Programme Services (CMEPS).

Kabel Plus's programming strategy , like those of other leading MSOs in the region, is meanwhile increasingly focused on trying to offer its subscribers localised channels,. In many ways a pioneer in the Czech television industry, it launched the country's first national satellite-delivered channel (Kabel Plus Film, showing mostly movies and entertainment) in 1992 before replacing it with a Czech version of Hallmark in 1998.

Kabel Plus has a good working relationship with HBO and distributes all three of its channels (HBO Czech and the basic cable Max 1 and SuperMax). It is also believed to be keen on launching a digital platform similar to Wizja TV, although the size of the Czech market and lack of local programming remain an obstacle.

An even bigger problem until now has been US West's general strategy, which is geared towards eventually offering broadband services. The Czech telecom market will officially be liberalised in 2001 but Kabel Plus, along with several other interested parties, is campaigning to have the date brought forward.

Kabel Plus's acquisition by UPC this June is nevertheless likely to have a profound effect on the company, with a link-up with @ Entertainment's Wizja TV and launch of a Czech digital TV platform being one likely outcome.

3.7 Current programme regulations

In Poland, broadcasters are required to allocate at least 30% of their airtime to Polish productions , while at the same time reserve at least 10% of annual transmission time a year to non-Polish producers.

In Hungary, public service broadcasters have to ensure that 51% of their annual output is of Hungarian origin and 70% produced in Europe as a whole (including Hungary).

National and regional broadcasters must in addition obtain at least 15% of their output from independent producers. The minimum local and public service quotas for such stations are 20% and 10% respectively.
TV2, which employs a frequency previously reserved for publicly-owned MTV's second channel, is required to allocate at least 35% of its airtime to Hungarian productions.

Although the broadcast rules currently in force in the Czech Republic do not specify programme quotas, TV Nova has always aimed to have at least 40% local content. Publicly-owned CTV, on the other hand, goes much higher, with in-house productions alone accounting for 72.8% and 58% of its two channels' respective airtime in 1998.

3.8 Conclusions

- Foreign ownership has provided broadcasters in central and eastern Europe with easy access to high quality programming from Hollywood majors and many of the world's leading production companies. At the same time, it has contributed to a sharp increase in local programming, which is being made by either independent production companies or the broadcasters themselves.

- The greatest contributions to local production industries are arguably made by foreign owners who are subject (like Canal Plus in Poland) to strict licence conditions.

- The concentration in ownership now taking place in central and eastern Europe will probably result in the launch of digital platforms serving Hungary and the Czech Republic, leading in turn to additional demand for local programming.

- The central and eastern European market is driven by demand for locally-produced programming rather than just localised versions of foreign satellite channels.

- Foreign ownership has played a major role in transforming the television industries of central and eastern Europe from relative backwaters into some of the most dynamic in the world.

4. Canal Plus[2]

4.1 Overview

Canal Plus is the largest pay TV group in Europe, with turnover slightly exceeding BSkyB's. Unlike BSkyB, whose activities are still largely confined to the UK, Canal Plus is a European multinational providing services in France, Italy, Spain, Belgium, Netherlands, Luxembourg, Germany, Poland, Scandinavia and Africa. Its activities range across terrestrial, satellite and cable television services; thematic, premium and generalist pay TV channels; film and television production and distribution; consumer electronics; and a Paris football club.

4.2 Ownership

Canal Plus's largest shareholder is the French-controlled Vivendi group, with 34%. Shares in Canal Plus and Vivendi are traded on the Paris Bourse. Vivendi is also the second largest shareholder in BSkyB (17%) after New International (40%).

Canal Plus is a "foreign" player in other territories:

- Benelux - the sole or major shareholder in the premium pay TV services Canal Plus Nederland, Canal Plus (Flanders), Canal Plus Belgique and the digital cable operation V2D/Canal Digitaal;
- Italy - the sole or major shareholder in the premium pay TV service Telepiu and the DTH service D Piu;
- Spain - 25% of Sogecable, the holding company which is the sole or major shareholder in the premium pay TV service Canal Plus, the DTH service Canalsatelite and the production and distribution companies Sogefilm and Sogecine;
- Scandinavia - the sole or major shareholder in the premium pay TV service Canal Plus and the DTH service Canal Digital;
- Poland - the sole or major shareholder in the premium pay TV service Canal Plus Polska and the DTH service Wizja Plus; and
- Africa - the sole or major shareholder in the premium pay TV service Canal Plus Horizons.

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[2] This chapter draws heavily on Francois Godard's excellent report on Canal Plus, published by Financial Times Media and Telecoms in April 1998.

Canal Plus is involved with foreign media and communications organisations in many of its domestic and international ventures, including:

- Pathe (20%) and Time Warner (10%) are investors alongside Canal Plus (70%) in the French digital satellite platform Canal Satellite;
- TCI holds 33% of MultiThematiques, a company established by Canal Plus and its major shareholder to export channel formats developed in France;
- Disney holds 33% of European pay TV channel Eurosport, alongside Canal Plus (33%) and French terrestrial television station TF1 (34%); and
- Bertlesmann holds 50% of German generalist pay TV channel VOX, alongside Canal Plus (25%) and BSkyB (25%).

4.3 History

4.3.1 Establishment

Canal Plus was established in 1983 as a single channel premium pay TV service distributed within France. There were many very favourable aspects to its establishment. It used terrestrial transmitters previously used for black and white television, which allowed it to reach 87% of the French population soon after launch with minimal adjustments to domestic antennae. This was better coverage than the new commercial networks La Cinq and TV6, which were established in 1987. Canal Plus paid only the operating costs of transmission, and made no contribution to the capital costs. Television receivers sold in France after 1980 required a connector which allowed easy access to an encoded signal (there were some technical problems in the early stages). Canal Plus was also, for many years, a pay TV monopoly in France and the service was not subject to regulation by the body which regulated other television services in France.

These favourable circumstances were secured “through a combination of political influence and corporate perseverance” (Tydeman 1989: 3). At the time, the socialist government’s popularity was falling sharply, in response to the abandonment of high growth strategies in favour of more austere fiscal and monetary policies. The service was set up by the government as a “gift” to be “offered to image lovers” (Chamard and Kieffer, quoted in Godard at 16).

The major area where Canal Plus faced restrictions was in its screening of feature films. The conditions of its licence aimed to ensure that pay TV’s screening of movies didn’t undermine French cinema exhibition and that revenues from the new service made a significant contribution to the French film industry. Canal Plus could only show 364 different films in each year and the pay TV screening had to occur at least 12 months after theatrical release. There were restrictions on the times of the day when films could be screened. 25% of total after-tax revenue had to be spent acquiring feature films. 60% of the films acquired had to be produced or co-produced in EC countries, with 50% from France. Effectively,

this meant that around 12.5% of the total revenue of the service would be spent on French films.

When the service made losses in its first two years and needed more capital, the government approved a loan and relaxed program regulation, allowing Canal Plus to screen more movies (400) across more of the schedule, while requiring a lower proportion (20%) of total revenue to be spent on feature films.

The service became highly successful and profitable, achieving 7.5% penetration of French TV homes in 26 months, signing its millionth customer within three years, making its first profit in its third year and listing about four years after launch (1987).

The company has developed new business in three areas: domestic cable and satellite channels, foreign pay TV services and channels and movie production. The cost of these ventures and the introduction of competition in the French pay TV market saw Canal Plus, in 1997, record its first loss since 1985. Merger talks with BSkyB have been unsuccessful, although such an alliance would in any case face significant political and competition regulatory difficulties.

4.3.2 Multichannel

Canal Plus launched a DTH satellite service in France 1992, a digital version of which was launched in April 1996. A rival digital DTH platform, TPS, launched at the end of 1996.

4.3.3 International Ventures

Canal Plus has had mixed success in foreign markets:

- Spain has provided "the perfect case study of a successful 'transplant' of the French [Canal Plus] model", according to Godard. "Unfortunately for Canal Plus," he says, "it is also the only one". Canal Plus and the Spanish media group Prisa each hold 25% of Sogecable, which owns Canal Plus Espana. The other 50% is held by financial institutions. The service began in similar circumstances to France - a single channel terrestrial subscription service launched before there was significant commercial television of any sort in the country. An analogue satellite package Canalsatelite was launched in January 1993 with a digital version launched in January 1997. A rival digital package Via Digital, backed by Telefonica, Spain's former monopoly telecommunications company, was launched in September 1997. Two separate negotiations have so far failed to achieve a merger of the two platforms. Sogecable is proposing to float 25% of the company in July (*Cable and Satellite Europe,* June 1999).
- In Italy, Canal Plus took control of the only pay TV operator Telepiu and its satellite DTH platform D Piu in 1997. Turning around this loss-making

enterprise needed to be Canal Plus' highest priority through 1998, according to Godard.

- French-speaking Belgium was Canal Plus' first overseas pay TV venture. While readily adapting the premium channel even to strict local programming requirements, its penetration (12% in 1998) has not reached the levels in France (21% in 1998) and the channel has been "no cash cow" for Canal Plus.
- The African operation Canal Plus Horizons was launched in 1991, initially through a premium channel delivered terrestrially in Ivory Coast, Senegal and Tunisia. It was expanded to a DTH service (Eutelsat) in 1995. It has been, according to Godard, "a costly mistake". Other projects in Chile and Turkey collapsed.
- In Germany, Europe's biggest market, Canal Plus' only stake is a 25% share in the VOX channel.

A key element in Canal Plus' overseas pay TV strategies is its packaging of thematic channels developed in France and exported to other territories. This is discussed further below.

4.3.4 Film Production

Improving its access to the supply of films - "upstream vertical integration" - has been a critical part of Canal Plus' business strategy from its earliest days. This has involved expanding activities in production, distribution and acquisitions for French and foreign films. In France, where television stations have been major contributors to local film production, Canal Plus quickly became the largest single source of finance for French features. Its Spanish film production arm, Sogecine, is now the largest investor in Spanish features.

In the US, Canal Plus initially acquired a stake in the US independent producer, Carolco (*Terminator*) in 1991, but the company went bankrupt in 1995. Instead of trying to establish its own Hollywood presence, a major part of its subsequent strategy has been to capitalise on the increasing share of US studio revenues coming from outside the US, especially Europe, to assemble substantial buying power which Canal Plus can bring to negotiations over the output of *all* the US studios. It has used this to secure output deals and to enter into co-production alliances with Warner Brothers and Sony.

Several alliances which now cover European theatrical and video distribution, as well as its multinational pay TV interests, enable Canal Plus to represent around 30% of global distribution revenue for US movies. This is a huge increase on the 2% which Canal Plus brought to the table when it represented only the French pay TV window. These alliances include Pathe's (a major shareholder in Canal Plus' French DTH service Canalsatellite and BSkyB) theatrical distribution arms in France, UK and Germany and a joint venture between Time Warner and Sogecable in Spain.

Godard interprets Canal Plus' overall strategy as a kind of reciprocation with Hollywood - studios like Disney and Universal get to launch their own branded channels on Canal Plus' pay TV systems and Time Warner gets an equity stake in the Spanish DTH platform, while Canal Plus gets production deals with the studios:

> Thus on the one hand, Canal Plus has let the Hollywood studios, its main suppliers, enter its core business activities; and on the other hand, Canal Plus is now taking positions in the studios' core market (Godard: 81)

Canal Plus controls Le Studio Canal Plus, which is involved in around 15-20 French films each year, Ellipse Programme, which makes television programs for all French broadcasters, and Docstar, which is a major documentary producer. Canal Plus sells documentaries internationally through Explore, a joint venture with National Geographic.

These arrangements provide three production "tiers": big-budget Hollywood blockbusters co-produced through the Warners deal; "trans-national" European productions shot in English ("Polygram-style movies") primarily made through the joint venture with Sony; and "domestic" European films with the potential for export, made through Le Studio Canal Plus, Sogecine and, increasingly, local Italian production.

4.4 Canal Plus Abroad

Godard argues that there are four main elements to the "Canal Plus Model" which it has sought to export to other territories:

- monopoly position - in establishing services and dealing with rivals;
- generalist programming - initially because restrictions on the number of films it could screen prevented a movies-only channel, but also because the daily window of unencrypted programming the channel carried could be best exploited with generalist programming;
- up-market positioning - despite similar programming to other pay TV services around the world, especially movies and sport, Canal Plus established and maintained "an up-market Parisian trend-setting image in France", selling itself as "a complete entertainment and cultural brand". This contrasts with, for example, the declasse ridicule which initially confronted Sky TV in the UK; and
- direct consumer relationship - Canal Plus was initially in control of its distribution destiny, through terrestrial transmission. Although some of its channels are now available on other platforms, it remains a pay TV service provider, not a mere channel provider to other services. In France, just two of its channels are available to rival DTH platform TPS. It has also implemented

a number of innovative customer relations strategies, including an annual series of special events for subscribers around the country.

It has exported these core features with a similar strategy in each territory:

- a premium channel, produced locally and generally called Canal Plus (Telepiu in Italy), which mixes sport (especially football) and movies;
- a package of channels delivered by satellite and sometimes cable; and
- production and distribution in the territory, including both local and international projects.

The branding of the service internationally has been a critical part of Canal Plus' approach. Although it has confronted some resistance as a "foreign" player in other European countries, especially Italy, it has generally chosen its partners carefully, managing to appear a good deal less foreign than other potential competitors.

4.5 Programming and program regulation

Canal Plus' channels are subject to the European Television Without Frontiers Directive which imposes on broadcasting services obligations:

- to reserve a majority proportion of transmission time (other than news, sport, game-shows, advertising, teletext and teleshopping programs) for European works; and
- to reserve 10% of transmission time (other than news, sport, game-shows, advertising, teletext and teleshopping programs) for independent productions (ie. produced by people independent of broadcasters).

More detailed or stricter rules can be imposed on television broadcasters operating within a single jurisdiction:

- In France, Canal Plus is still required to spend 20% of its turnover on films. Of this figure, 12% must go to European productions (including 8% on French language productions), with 8% going to non-European productions. Francois Godard notes that BSkyB, without such regulation, spends around 20% of its turnover on films and that the proportion required to be spent on French films is roughly in line with French films' share of the local box office. However, the proportion required to be spent on non-French European films is higher than the equivalent share of the French box office. Around a quarter of the budgets of French feature films each year is supplied by Canal Plus.
- In Italy, half Telepiu's movies are required to be European, half of which must be Italian.
- In Spain, Canal Plus has to meet a "25% domestic content quota" - around twice the share which Spanish films take of the local box office, according to Godard.

- In Belgium, Canal Plus was required to make heavy investments in local production. Godard says the history is a "trouble-free story of adapting the French programming and marketing approach with some local original magazine shows". Film rights are acquired as part of contracts negotiated with the major distributors for France (similar to Australia and NZ).

Statistics collected by the European Commission show the level of European, independently-produced and "recent" programs screened on key Canal Plus channels through Europe (refer Table next page)

4.6 Conclusions

- The substantial profits gained from a highly successful domestic pay TV service and channels were the foundation on which Canal Plus based the establishment and acquisition of multichannel operations in other countries. Like BSkyB in the UK, Canal Plus' powerful position in European pay TV began with a domestic monopoly (granted by government in Canal Plus' case). The profitability of Canal Plus, also like BSkyB, has been diminished by competition.
- Canal Plus' strong financial base and ability to invest in pay TV, production and distribution activities in other territories, enabled it to build a potent buying strength for audiovisual product, even that originating from the world's largest market, the US.
- Canal Plus has exported to other countries a business model for pay TV operations, together with a very specific line-up of consistently-branded channels packaged for different local markets.
- Canal Plus has made a substantial contribution to film production in the territories where it is well-established. This reflects both the commercial imperative to acquire exclusive pay TV access to feature films, including those produced locally, and specific regulation which has set minimum requirements in addition to those imposed by the European Commission's Television Without Frontiers Directive.

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Canal Plus: Share of European, independently-produced and "recent" works screened 1995-96

Country & Channel	European Works		Independent Productions		Recent Works	
	1995	1996	1995	1996	1995	1996
Belgium **(French-speaking)**						
Canal Plus	42	52	28	30	NR	NR
Germany						
VOX	16	32	15	26	16	30
Spain						
Canal Plus	39	40	16	18	13	13
France						
Canal Plus	58	65	11	13	100	100
Canal J	64	72	48	52	NR	NR
Canal Jimmy	54	52	40	37	NR	NR
Cinecinefil	60	62	64	45	NR	NR
Cincinemas	53	54	67	43	NR	NR
MCM/Euromusique	85	87	13	15	NR	NR
Muzzik	-	96	-	91	NR	NR
Paris Premiere	91	95	48	51	NR	NR
Planete	80	80	42	65	NR	NR
TMC	57	62	33	38	NR	NR
Voyage	-	71	-	41	NR	NR
Italy						
Telepiu 1	35	35	NR	NR	NR	NR
Telepiu 2	100	100	NR	NR	NR	NR
Telepiu 3	83	96	NR	NR	NR	NR
Netherlands						
Canal Plus (1)	15	18	15	17	100	100

Source: European Commission DG13 (1998) "Third Communications from the Commission to the Council and the European Parliament on the application of Articles 4 and 5 of Directive 89/552 'Television without Frontiers' for the period 1995-96 including an overall assessment of application over the period 1991-96", http://www.europa.eu.int/comm/dg10/avpolicy/twf/art45/3index_en.html (visited 18 March 1999)

(1) Canal Plus reported that "since it specialised in films and sport, it would be impossible for it to meet the quota of European works, since the majority of popular films were produced outside Europe". The channel had asked for an exemption under Article 53b(5) of the Media Decree. The national authorities were considering whether an exemption should be granted.

5. CanWest in New Zealand

5.1 Overview

Global Television NZ (Ltd) operates two free-to-air networks in NZ - TV3 and TV4. TV3 was launched in November 1989 and TV4 was launched in June 1997.

TV3 attracted a 19% share of peak-time viewing in 1998 and TV4 attracted a 4% share of peak-time viewing.

5.2 Ownership

Global Television NZ (Ltd) is 100% owned by CanWest Global Communications Corporation. CanWest Global also controls television stations in Canada, Australia, and Ireland:

- Its eight-station free-to-air network is the most profitable in ***Canada*** and it also controls the Canadian cable "superstation" Prime TV.
- CanWest holds a 15% voting interest and a 57.5% economic interest in The Ten Group Ltd in ***Australia***, which owns stations in the five major metropolitan centres and holds around a 15% interest in the companies which operate Ten Network affiliates in the four aggregated East Coast regional markets.
- CanWest owns around 30% of Ulster Television, the ITV franchise in Northern Ireland, and 45% of TV3, the first commercial television broadcaster in the republic of Ireland, which launched in September 1998.

CanWest also owns Global Radio NZ Ltd, which operates the More FM radio network in NZ.

5.3 History

5.3.1 The launch and collapse of TV3

TV3 was the first commercial television competitor to the two-channel television monopoly operated by BCNZ/TVNZ. US network NBC was one of its shareholders at the time of the launch in November 1989. The station widely publicised its expectations of a 30% share of the national audience, but attracted a 14% share the month after launch. Local programs were cut and staff sacked, the company's share price collapsed and its shareholders and bankers fought. The company was placed into receivership after 157 days of broadcasting. Paul Smith writes in *Revolution in the Air* that TV3 "over-estimated its own appeal and ignored TVNZ's turnaround", but that the damage was done "not by ratings but by expectations".

5.3.2 Foreign ownership

New Zealand's broadcasting ownership laws were changed in April 1991 to allow 100% foreign ownership of broadcasters by foreign interests. CanWest bought a 20% interest in what became TV3 Network Holdings in December 1991 and an exclusive management contract to operate the station. Westpac held 48% and the receiver 32%. Current CanWest Global CEO, and former CEO of Network Ten in Australia, Peter Viner, is reported to have said at the time that CanWest's priority was to bring "a sense of stability and a sense of the long term" to the station.

The survival of TV3 was a key motivation for the changes to the foreign ownership rules. Prime Minister Jim Bolger argued that:

> The future operation of TV3 is seriously at risk without higher overseas investment, and we consider that its continued operation is important in terms of providing a service to viewers, more competition in advertising and a counterbalance to TVNZ's dominance of the industry…(quoted in Smith 1996, p101)

It has been suggested that NBC was the "wrong kind" of shareholder for TV3. In a 1995 interview with Paul Smith, TV3 lawyer Brent Impey said:

> At the time the only possibility to get TV3 up and running was to secure an overseas media company and bring in other financial institutions. I now believe that a network as large as NBC wasn't appropriate. I can remember them saying things like "The value of our TV3 investment is worth a few spots on *The Cosby Show* and that puts it into context. They were not a hands-on operator with an appreciation of a market New Zealand's size. (Smith 1996, p71)

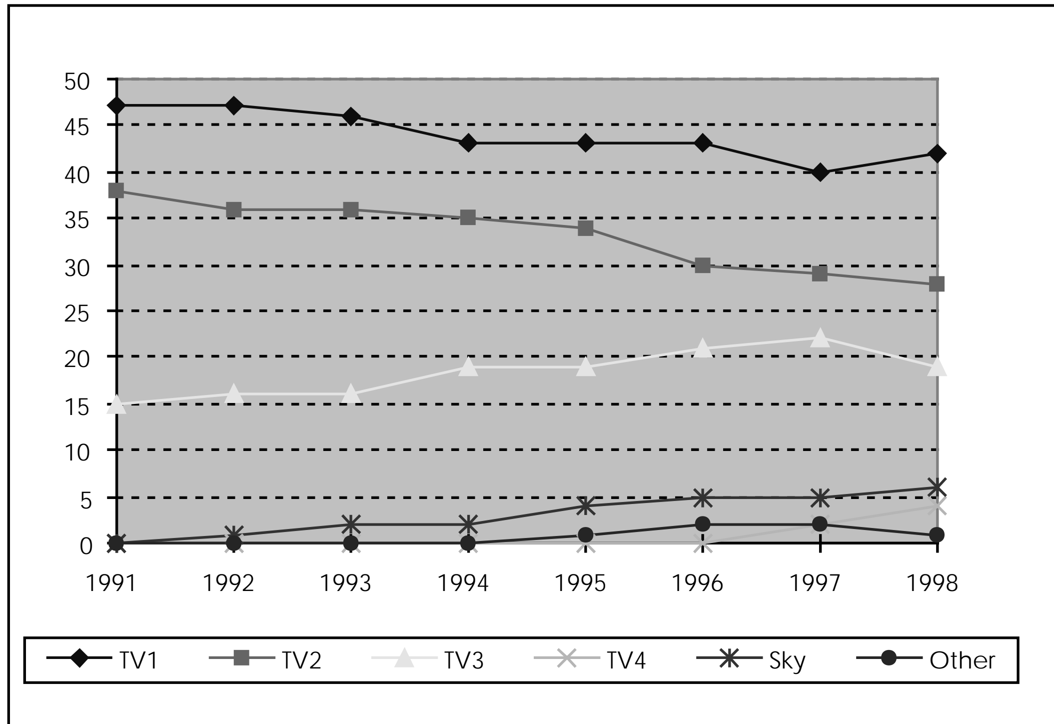
5.3.3 The launch of TV 4

TV4 was launched as NZ's fourth free-to-air channel in mid-1997. CanWest assembled the network through reshuffling its use of TV3 frequencies to provide a fourth network reaching 60% of the population, without compromising TV3's coverage.

5.4 Current services

5.4.1 Audiences

Television Channel Share, Peak 18.00-22.30: All People 5+



Source: AC Nielsen New Zealand

New Zealanders watched television for an average of 170 minutes per day in 1998, around 12% less than Australians (194 minutes).

TV3 targets the 18-49 demographic and TV4 targets 15-39.

TV3's share of peak-time viewing grew from 15% in 1991 to 22% in 1997, but fell three points to 19% in 1998. TV4 drew a 2% share of prime-time viewing in its first year, 1997, which increased to 4% in 1998.

TVNZ's two channels' share of prime-time viewing has fallen from 85% in 1991 to 70% in 1998, with TV2 falling 10 share points to 28% and TV1's falling 5 points to 42% (TV1 picked up 2 share points in 1998, as TV3 dropped 3 points). The 15 share points which have fallen from TVNZ's audiences since 1991 have gone to TV3 and TV4 (8%), pay television operator Sky TV (6%) and other broadcasters (1%).

In Sky homes, 25% of prime-time viewing is of pay TV channels. Sky's share of viewing throughout the day is slightly higher than its share of prime-time viewing - 9% rather than 6%.

Average TV viewing in NZ has increased steadily over the last five years, from 159 minutes per day in 1993 (down from 165 minutes two years previously) to 170 minutes per day in 1998. Viewing levels (expressed as a percentage of potential) between 6pm and 8pm on weekdays have fallen since 1991, while weekday viewing after 9.30pm has increased. Average viewing levels on weekend evenings have fallen across almost all time slots since 1991.

Of the top 10 rating programs in 1998, four were rugby matches and two were movies (*Forrest Gump* and *Mrs Doubtfire*). Of the othersk two were regular TV1 programs, the weekly consumer issues show *Fair Go* and the early evening news bulletin.

No decisions have yet been taken about the introduction of digital television into NZ.

5.4.2 Strategies

TV3 - Graeme Hunter, managing director, November 1997

80% of ad spend is from TV3 target demographic 18-49. "We're not interested in doing big shares of the five-plus market. And the youth market in NZ is too niche…". Local shows are driving ratings growth - five shows in TV3's weekly top 10 - "They're high-concept with a Kiwiana-style flavour." Drama - "To get a serious return from that investment is a serious issue for us. But as the market fragments more and free-to-air broadcasters compete with [satellite] signals coming into the market, we will concentrate more on local production."

TV4 - Bettina Hollings, general manager

November 1997: Not a youth-only channel - "There's a gap in the market for a youth-only channel but there's not a market in the gap…TV4 was always going to start out most fondly held by young people because they are the early adopters…".

March 1998: "In effect, through TV4, we're putting together a new mass audience. Not just kids and the 15-24 year olds or the 25-39 year olds or the 40+, but people within all those age segments who relate to and can identify with youth-oriented culture."

TV4 - John Wright, program manager, November 1997

"Alternative mainstream…shows that are too risky for other major players in prime time…The TV4 style is deliberately built on comedy…I don't consider any [of our local shows] to be a failure but that's probably our lot for a while. We're not in a position to have enough sampling of the channel or returning enough revenue to put more local production into the mix. But that's our intention as we grow."

CanWest - Peter Viner, CEO, July/August 1998

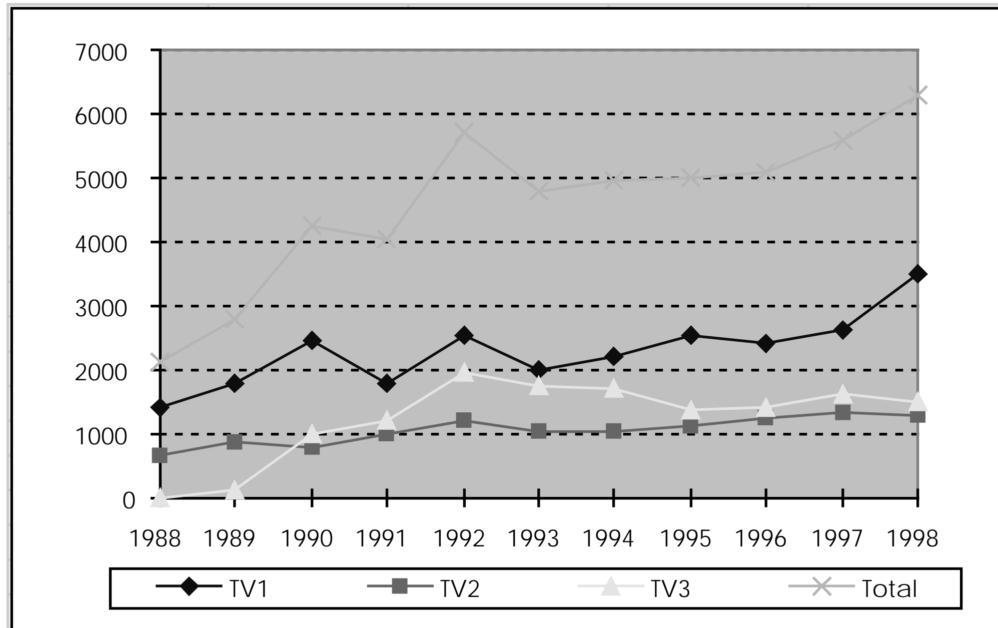
Speaking about Canada, where they had bought Toronto-based production company Fireworks Entertainment (*La Femme Nikita, F/X The Series*) - "In a market that is so divided in terms of viewers, you have to have a couple of signature shows, like *Traders*, to look distinctively Canadian". Internationally distributing programming, either from Fireworks or independent sources, through Canwest's global broadcast operations will help "bring down the high cost of those productions…It's a big plus going into a new market with several thousand hours of programming in your library…".

5.4.3 Local program statistics

In 1998:

- Across the whole schedules of the three networks with national coverage (TVNZ's TV1 and TV2 and Canwest's TV3), local content averaged 24%:
  - ◊ 40% on TV1
  - ◊ 15% on TV2
  - ◊ 17% on TV3
- In prime time, the three major networks hours of local programming increased steadily from 1989 to 1994, fell sharply in 1995, and has increased slightly each year since then. In 1998, there were 1646 hours of local content screened in prime time across the three networks - an average of 4.5 hours per night. This is an increase of 75% since 1989, when TV3 commenced broadcasting, but a fall of 10% from the peak year 1994.
- TV3 screened 37% first run local content in prime-time, down 3% on 1997. Of this, 20% was news programs and 17% other program genres. TV3's first run local content hours have fallen steadily over the last three years, from 1153 hours in 1995 to 902 hours in 1998. Its total NZ hours have increased since 1995, but have fallen around a quarter from their 1992 peak.
- TV4 screened 2% local content (150 hours) across its whole schedule in what was its first full year of operation. This compared with 6.6% (188 hours) in its first six months of operation. The reduction came mainly because test cricket coverage, screened on TV4 in 1997, reverted to TV3 in 1998. Over half of TV4's total hours were repeat screenings of former TV3 programs.

Total NZ Hours by Channel 1988-98



Source: NZ on Air (1999) *Local 98 Content: New Zealand Television* Wellington, NZ, p7.

First Run Hours (Peak and Offpeak) By Channel

TV ONE	News, CA	Entertainment	Sport	Doco.	Information	Drama/ Comedy	Children	Maori	Total
1998	1328	65	751	132	676	14	0	140	3106
1997	1002	60	562	108	438	24	8	146	2349
1996	757	46	748	121	249	20	1	122	2064
1995	526	131	1066	128	229	41	28	127	2276
TV2									
1998	0	182	36	28	25	144	210	40	665
1997	18	125	121	20	281	119	198	34	916
1996	0	75	102	9	378	136	209	44	953
1995	89	77	197	18	7	135	243	0	588
TV3									
1998	421	67	158	73	28	23	132	0	902
1997	418	45	181	60	52	28	162	0	946
1996	429	33	205	57	89	44	193	0	1050
1995	417	62	282	61	85	49	197	0	1153

Source: NZ on Air (1999) *Local 98 Content: New Zealand Television* Wellington, NZ, p9.

Looking in more detail at TV3's output in particular program categories:

- Drama/comedy - TV3 has favoured comedy over drama. It launched several new comedy series in 1998 and repeated other local comedies off-peak to nearly double its drama/comedy hours in 1999. NZOA (see 5.5.2) provides substantial support for drama/comedy programs.
- Sport - TV3's hours were stable from 1997 to 1998, but are only about a third of the level in 1994 (mainly rugby league and cricket - NZ was in the World Series in 1994). It cut its sports magazine program Mobil Sports from two hours per week to one hour in 1995 and then dropped the program altogether. A new entertainment-oriented show *The Game* was launched in 1998. Pay TV is a key reason for reduced sports coverage on all three national networks over the last three years.
- News and current affairs - TV3 produces a daily *3 National News* and *Nightline*. Hours have been fairly stable over the last four years. Total news and current affairs available to New Zealanders rose significantly when TV3 came into the market, with a new daily news bulletin, *Nightline* and then *The Ralston Group* and *Four Corners*, but hours have fallen substantially since then - *The Ralston Group* and *Four Corners* were dropped in 1995 and the daily news is no longer repeated the following morning.
- Entertainment - TV3 doubled its local first run output in this area in 1998, with new series *(Ground Force, Revell with a Cause, Ready Steady Cook, In the Face of Fear* and *Caltex Dreams Come True*) and off-peak repeats.
- Children's - TV3 screened nearly twice as much children's programming as TV2 (the TVNZ channel which targets young audiences) in 1998 (401 hours). This was down considerably on the previous year, due to the dropping of some repeat screenings. All children's programs are supported by NZOA funding.
- Documentaries - TV3's documentary hours have increased in all but one year of its operations (104 hours of first run and repeats in 1998). It has on-going strands *Inside New Zealand, 20/20* and *Fresh up in the Deep End* and introduced a new reality series *Driving School New Zealand* in 1998. NZOA is a substantial supporter of documentary programs.
- Information - TV3's hours increased in 1998, with an increase in repeats offsetting a decline in first run programs. Continuing series are *Ansett Time of Your Life* and *Cathay Pacific Destination Planet Earth*.

TV4's local programs include *Ice TV, The Drum and Cin City*.

5.4.4 Public debate about local content

Considerable concern has been expressed about the level of local television programming in NZ. In a strongly worded introduction to the 1998 edition of the annual NZOA survey of local programming, NZOA chair David Beatson said:

> NZ has a remarkably low level of locally-produced programming by world standards. Our total local hours hover at around 24% [for the three nationwide channels] compared to over 55% in Australia, 60% in Canada, over 80% in Britain and 5% in the US… While [the increase from 21% in 1998] is, on the surface, a positive result, the increase is primarily due to more news, coverage of the Commonwealth Games and more repeats [up from 16% of total hours four years ago to 26%]…[T]he quantity of first run children's programs has been dropping consistently for four consecutive years and first run drama output is wavering…

Beatson drew several points from the 1998 survey with policy implications for the general television environment:

- Local content hours "are barely holding their own. There is an increasing reliance on repeated and semi-infomercial programs and a change in emphasis from the more expensive and/or high risk programs to cheaper commercially attractive material, sometimes with little NZ resonance.
- Diversity of local programs "is clearly on the wane…There is an increasing emphasis on news (where there are significant economies of scale), infotainment and entertainment programming, meaning less opportunity for documentaries of substance…, current affairs, drama and children's programs.
- New TV channels have "virtually no first-run NZ content".
- The genres most at risk because of their cost and/or lack of commercial viability are being affected by NZOA's loss of spending power (due to the lack of indexation of the licence fee, which has remained unchanged in dollar terms since 1989). First-run output of drama, children's and young people's programs and programs for special interest audiences, three of the four program areas targeted by NZOA, are "static or in decline". The fourth, documentary, has increased, but "the types of documentary being made are becoming very similar".

He concluded that "NZ's system of intervention is facing a significant challenge in terms of delivering an adequate volume and range of local content".

5.5 Current program regulation

5.5.1 Quotas

NZ has no quotas requiring minimum levels of NZ programs or independent productions to be screened. All social and cultural objectives in broadcasting are pursued by subsidy and state ownership.

There has been renewed interest in program quotas for NZ television, partly in response to recent local content statistics and sharpened by the High Court's Project Blue Sky decision and its implications. The amendment of the ABA's Australian Content Standard to effectively treat NZ programs as Australian from 1 March 1999 has split the NZ production industry, some parts of which believe the NZ "win" has undermined the case for exclusively-NZ program quotas at home. Labour and the Alliance both support quotas.

Following the release of the 1998 local content statistics, the production industry magazine *Onfilm* has featured:

- a story about the "boom" in the television business, with CanWest promising a "higher commitment to the local production industry" - a 35-40% increase to around 2000 hours - and programming director Bettina Hollings indicating that her local program budget is "bigger than it's ever been - it's real recognition of our being a New Zealand company"; and
- an long opinion piece by the executive director of the Television Broadcasters Council (the NZ FACTS) arguing the case against quotas.

5.5.2 Subsidy

At present, New Zealanders pay an annual television licence fee of $NZ110, which is collected and spent by New Zealand on Air (the trading name of the NZ Broadcasting Commission) on a range of activities: NZ television programs, National Radio and Concert FM, access and Pacific Island radio stations and Maori broadcasting, some individual radio programs and music videos, uneconomic transmission facilities and TV and radio archives. In 1997/98, net licence fee income (gross income less collection costs) totalled $NZ86.5 million. Of this, $44.4 million was spent on television programs, $22.4 million on radio and $12.7 million on Maori broadcasting.

The Government has recently announced the phasing out of the licence fee, which will end on 1 July 2000. Funding for NZ on Air has been provided for in the forward estimates of government outlays at the same annual level as current net income from the licence fee until 2001/2. Responsibility for this funding has been split across two ministries - Commerce/Communications (40%, covering Radio NZ and Concert FM, , access and Pacific Island radio stations and Maori

broadcasting, uneconomic transmission coverage and administration) and Arts (60%, covering TV programs, NZ music and archives).

The Labour Opposition (and the Alliance) has indicated that it will introduce program quotas if returned to government in the election due later this year.

5.5.3 State ownership

TVNZ is state-owned, but its primary obligation is to operate profitably. When the BCNZ was separated into two corporatised, state-owned enterprises (SOE's) in the late 1980s, its legislative obligation to "educate, entertain and inform" was replaced by obligations common to all SOE's, to operate profitably and to "exhibit a sense of social responsibility". The current government has indicated that it will privatise TVNZ if returned to office in the election due later this year.

5.6 Conclusions

- The NZ state-owned and commercial networks have very low levels of local programming by comparison with other English-language television markets.
- TV3 came into the market with big plans for local production and NZ hours screened increased steadily from 1989-92, even after the network had gone into receivership and then been acquired by CanWest.
- TV3 has still not come close to the 30% audience share which its optimistic initial forecasts proposed. CanWest's job has been to make the channel (and subsequently a second channel) work financially within very different revenue expectations.
- TV3's total NZ hours have stabilised since CanWest took over, although first run programming has been reduced and off-peak and repeat scheduling of NZ programs have increased. Prime-time NZ hours, including repeats, have fallen since then. Local production in recent years has been concentrated on cost-effective program genres, with very little drama.
- The channel's audience share however rose until 1998, when a rejuvenated TV1, the new TV4 and pay TV combined to affect TV3's performance.
- The network is talking publicly of the importance of local programming to its future strategies, but there are limits to the likely commitments which will be made by a highly cost-conscious network in a country with a market smaller than Melbourne serving viewers who watch 12% less television than Australians.
- A significant development is the amendment to the Australian Content Standard which would allow many programs commissioned for TV3 and TV4 to qualify for Australian quotas. At this stage, there are no clear indications of any extent to which CanWest might seek to exploit this opportunity, although the Ten Network is understood to be about to announce a new drama program.

5.7 References

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6. British Sky Broadcasting plc[3]

6.1 Overview

BSkyB operates the major pay-TV platform in the UK, selling a range of proprietary, joint venture and third party channels and services to subscribers via direct-to-home (DTH) satellite, cable and digital terrestrial. BSkyB handles subscriber management for all of the channels and services in its DTH package. The company uses conditional access technology supplied by News Datacom Ltd, a subsidiary of News Corp.

BSkyB's services are available in the United Kingdom and the Republic of Ireland.

6.2 Ownership

News International Ltd: 40%
Vivendi: 17%
BSB Holdings: 12%

News International is the UK subsidiary of News Corporation. Vivendi is a French company with interests in utilities and media, including the Canal Plus group. BSB Holdings is owned by former BSB shareholders Granada, Pearson and Pathe.

Around 30% of the shares in BSkyB are traded on the London and New York stock exchanges.

6.3 History

British Sky Broadcasting was formed by the merger of Sky Television and British Satellite Broadcasting (BSB) in November 1990. Sky TV, wholly owned by News International, stole a march on BSB, the official, government-licensed satellite pay-TV operator, by launching a four-channel package on the Astra satellite several months ahead of BSB in February 1989.

Combined losses of Sky and BSB at the time of the merger were running at 14m pounds a week. Ownership of BSkyB was split equally between News International and the BSB shareholders - Granada, Reed, Pearson and French company Chargeurs – following the merger.

Costs were sharply reduced by BSkyB's management team, led by chief executive Sam Chisholm. BSkyB sold off BSB's satellites, reduced its offer of channels to five, and renegotiated its film supply contracts with Hollywood film studios.

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[3] This chapter was written by Tim Westcott, a former editor of *Television Business International.*

BSkyB continued to run at a loss for another three years. One shareholder, Reed, declined to participate in a fresh round of financing in March 1991, and its share was diluted to just under 4%. News International retained a 50% stake, while Pearson and Chargeurs raised their interests to 17% each, while Granada stayed at 14%.

BSkyB reached operational break-even in March 1992 and registered its first annual profit in the financial year to June 1994. Capitalising on its strong financial health, the company floated 20% of its shares on the London and New York stock markets.

BSkyB's most significant programming coup was in May 1992, when it signed an exclusive five-year deal for live television rights to the English Premier League, the UK's main football competition.

In September 1993, the Sky Multichannel package was launched. The package was made up of Sky's own channels and various joint venture and third-party channels including Nickelodeon, MTV and Discovery Channel.

BSkyB: Turnover and Operating Expenses 1997-99

Year (to June 30)	1997	1998	1999 (nine months to 31 March)
Turnover (£m)			
DTH subs	861	968	736
Cable and DTT subs	191	228	180
Advertising	150	195	154
Other	48	44	75
TOTAL	1,250	1,435	1,145
Pre-tax profit	314	271	na
Operating expenses, net (£m)			
Programming	569	688	569
Transmission and related functions	47	70	68
Marketing	102	168	161
Subscriber management	92	92	118
Administration	65	76	75
TOTAL	**875**	**1,094**	**991**

Facing a lack of real competition in the UK market, BSkyB was able to delay the launch of digital services until October 1998. The company was also part of the BDB consortium bidding for licences to operate digital terrestrial television (DTT) in the UK. Regulators persuaded BSkyB to withdraw from BDB on

competition grounds, but it retained a 12-year deal to supply five of its channels to BDB, which was awarded all three commercial DTT licences.

BDB (subsequently renamed ONdigital) is owned by Carlton Communications and Granada. Granada sold its direct stake in BSkyB shortly before the launch of ONdigital in November 1998. At last count, Sky Digital was outselling ONdigital, with 551,000 subscribers signed up to March 31, 1999 compared to ONdigital's 110,000.

6.4 Current service

At the presentation of BSkyB's most recent accounts, for the nine months to the end of March 1999, the company said it had signed up 551,000 subscribers to Sky Digital. It said that 212,000 of these were new customers; the majority were analogue subscribers who had upgraded.

BSkyB is battling for new subscribers against ONdigital. The DTT operator is primarily targeting the two-thirds of the UK population who do not subscribe to cable or satellite, promoting itself as a 'plug in and play' service which does not require a satellite dish or cable connection, but simply a decoder box.

The benefits of Sky Digital are the greater number of channels available, including a near video-on-demand service, digital radio, an electronic programme guide and soon to be introduced interactive TV services. In addition, BSkyB opted for an aggressive pricing strategy; the full Sky Digital package of 140 TV channels costs the same as the analogue package (which BSkyB is no longer marketing).

Sky has also started offering free decoders (previously they were priced at 299 pounds) to new subscribers. The only upfront cost for new Sky Digital subscribers is a 30 pound connection fee.

6.4.1 Sky Digital packages

Basic packages:		
Value Pack	6.99 pounds per month	5 TV, 10 Music Choice digital radio channels
Popular Mix	8.99	14 TV, 10 radio channels
Knowledge Pack	8.99	13 TV 10 radio channels
Kids & Music Pack	8.99	13 TV, 10 radio channels
Lifestyle Pack	8.99	13 TV, 10 radio channels
Sky Family Pack	11.99	40 TV, 10 radio channels

Premium channels:
Sky Premier, Movie Max, Disney Channel, Sky Cinema, Sky Sports 1, 2, 3

Stand-alone premium channels:
Disney Channel, MUTV, Music Choice Extra
4.99 pounds each

Near video on demand:
Sky Box Office
Films with staggered start-times every 15 minutes

Sky Digital is offered in almost 100 different packages ranging from a basic 'value' package consisting of Sky One, Sky News, Discovery Home & Leisure, Bloomberg, QVC and Music Choice, to the Sky World package including all of Sky's basic and premium channels priced at 29.99 per month.

The key premium channels are Sky Moviemax, Sky Premier, and Sky Sports 1 and 2. Subscribers can choose to add various permutations of these channels to basic packages for additional fees starting at around 7 pounds for the first channel.

6.4.2 Relationships to other services

BSkyB supplies channels to both cable and digital terrestrial operators, although it competes for direct subscriptions against both forms of distribution.

Company accounts show that DTH subscribers are falling, while the numbers of those subscribing to its services via cable and digital terrestrial are on the increase. In the nine months to the end of March, DTH subs fell 3%, while cable subs increased 12%. Even with DTT, in theory a rival platform, Sky earns revenue from a cut of subscriber revenues.

BSkyB subscribers 1998-99

Subscribers	**March 31, 1999**	**Dec 31, 1998**	**Jun 30, 1998**
DTH subs	3,445	3,458	3,547
Cable subs	3,140	3,039	2,796
DTT subs	110	-	-
Total UK	6,695	6,497	6,343
Total Ireland	583	576	556
Total BSkyB subs	7,278	7,073	6,899

However, a simple calculation reveals that BSkyB's margins from cable and DTT subscribers are considerably lower than DTH subscribers. BSkyB makes almost four times as much money from DTH subscribers as it does from cable.

BSkyB Revenue per subscriber (pounds)

	Mar 1999	**Mar 1998**
DTH	213.6	208.5
Cable & DTT	55.3	56.2

Capturing as many DTH subscribers as possible is therefore a priority – especially because BSkyB has the possibility of making more money – from increased subscription rates, near-video on demand films and sports events, and interactive services – from digital subscribers in the future.

According to the Financial Times newsletter New Media Markets (August 6, 1998), BSkyB is hoping to generate most of its profits in the future from pay-per-view and interactive services. While most of Sky's analogue revenues stemmed from premium channels, with digital it expects pay-per-view sports, movies and concerts to be the key to its profits.

6.5 Local programming strategies

British Sky Broadcasting is regulated by the Independent Television Commission, the UK's commercial TV regulator. It operates under a satellite service licence and, unlike terrestrial TV channels, does not have any 'positive programme obligations' such as a requirement to air factual, religious or children's programming.

However, BSkyB is subject to the requirement to air a majority of European programming which is part of the 1989 (amended in 1997) European Union Television Without Frontiers Directive. One of the aims of the Directive was to stimulate local production in Europe by encouraging broadcasters to produce, commission or acquire European programming. The Directive does not make any distinction between the nationality of material originated in the 15 EU member states. Article 4 of the Directive stipulates that channels should 'where practicable' broadcast a majority (ie more than 50%) of European works. News, game shows and sports programming are exempted.

The 'where practicable' wording has allowed UK authorities some leeway in enforcing compliance with this clause of the Directive. Start-up satellite channels have argued that a requirement to air a majority of European programming imposes too great a financial burden and would render their services unviable. The UK regulators have shown themselves to be sympathetic to this argument and have to date taken no action to require channels licensed in the UK to comply with Article 4. Neither the ITC – which monitors compliance with the Directive, nor the Department of Culture, Media and Sport – has taken any action against BSkyB over non-compliance with Article 4.

Figures on the percentage of European content aired by TV channels in the UK are collected by the ITC on behalf of the European Commission on an annual basis. They reveal that the level of European content on Sky's channels has gradually increased since monitoring began in 1991. However, Sky One – BSkyB's 'flagship' general entertainment channel – and the other Sky channels

still fall well short of the majority requirement although BSkyB as a whole has been profitable since 1994.

BSkyB: Share of European, independently-produced and "recent" works screened 1995-96

Channel	European Works		Independent Productions		Recent Works	
	1995 (51%)	1996 (51%)	1995 (10%)	1996 (10%)	1995	1996
The Movie Channel	18	17	11	7	4	3
Nickelodeon	27	25	8	11	5	9
Sky 2	0	27	0	0	0	0
Sky Movies	25	13	10	5	11	1
Sky Movies Gold	27	20	16	12	0	0
Sky One	33	38	10	4	10	4
Sky Soap	4	7	0	0	0	0
Sky Travel Channel	23	32	17	13	15	13

Source: European Commission DG13 (1998) "Third Communications from the Commission to the Council and the European Parliament on the application of Articles 4 and 5 of Directive 89/552 'Television without Frontiers' for the period 1995-96 including an overall assessment of application over the period 1991-96", http://www.europa.eu.int/comm/dg10/avpolicy/twf/art45/3index_en.html (visited 18 March 1999).

(1) The UK reported that Nickelodeon, Sky Movies, Sky Gold, Sky Soap and Sky Travel Channel failed to reach the proportions required "because of the subject matter of the channel" and Nickelodeon, Sky One, Sky Soap and Sky Travel Channel "because of difficulty in finding European programs or finding European programs at competitive prices".

6.5.1 Key programming on BSkyB

The most significant element of BSkyB's array of programming is its live coverage of the English premier league. BSkyB signed its first five-year deal to carry the football competition in May 1992. At the time, the amount paid – 304m pounds – was unprecedented in UK or indeed European sports rights. When Sky renewed its deal with the English Premier League in June 1996, it paid even more – 607m pounds over five years to 2001.

Sports rights as a whole make up the largest proportion of Sky's programme budget – 42% of its 687m pounds programme budget in 1998, compared to 31% in 1997. The new Premier League contract cost an extra 92m pounds in 1998.

The value of Sky's football coverage has in part been promotional – in many ways the introduction of its live Premier League soccer coverage in August 1992 –backed up by heavy advertising - coincided with its emergence as a more significant player in the UK broadcasting scene. But football coverage is most

important as a subscription driver, persuading new people to sign up for the service.

BSkyB airs several other domestic football competitions as well as Rugby League and Union, golf, cricket, horse racing and tennis.

6.5.2 Films

Until 1998, film rights accounted for the majority of BSkyB's programme spending. Spending on films actually fell marginally that year, a consequence of the strong pound and a slight reduction in the number of film subscribers. The majority of Sky's films – it shows 2,000 titles a year – are acquired from the Hollywood studios.

BSkyB also pre-buys UK pay-TV rights to films financed by British Screen and the European Co-Production Fund under an output deal which has been in place since 1994. British Screen is a private company which derives part of its funding from the government's Department of Media, Culture and Sport.

As part of its greater investment in original programming (of which more below), BSkyB has begun to finance original films. Through Sky Pictures, its film production division, it is expecting to invest 15 million pounds on around 12 films this year and next. They will receive a first airing on Sky Premier, with a possible simultaneous theatrical release in the UK. The films are budgeted at 2-5 million pounds, with BSkyB investing around 1.2 million pounds per film in return for UK rights and a share of international profits.

6.5.3 Entertainment programming

BSkyB has also in recent years increased the amount of programming origination on Sky One.

Sky One is the most-viewed cable and satellite channel in the UK, accounting for 1.5% of overall viewing in 1998. In homes which have access to cable and satellite (7m out of 24m TV homes in the UK) Sky One's share is closer to 5%. With Sky One now carried on cable, satellite and terrestrial platforms, BSkyB's management are aiming to raise its profile to compete with terrestrial channels – notably Channel Five, which had a 4% share of viewing in 1998.

To date, Sky One has relied primarily on US programme imports as well as some Australian fare. It had exclusive rights to the Fox Network animated series *The Simpsons* until 1997; it was one of Sky's top-rated programmes. Otherwise, Sky has often acquired programming jointly with other UK broadcasters, with an option to air a programme at least six months before its debut on terrestrial TV. Among its most popular programmes are *The X-Files* (shared with the BBC), *Friends* and *ER* (shared with Channel 4).

Sky's investment in original programming has increased significantly since Elisabeth Murdoch joined the company as general manager in 1996. She is quoted in Mathew Horsman's book *Sky High* explaining the rationale behind this move, which gathered pace in 1997 and 1998: 'We need to be rights holders and not just rights leasors. Right now we rent programming and if we make it work… the next time you go back, it's tripled in price. So we very much recognise that we need to participate in the food chain.'

Sky One has initially concentrated on introducing new shows in off-peak timeslots. It has so far commissioned shows from a small number of production companies, including LWT (owned by the Granada group), Hewland International, Tiger Aspect Productions and September Films. In 1998, Sky was also reported to be discussing the possibility of acquiring equity stakes in production companies such as Tiger Aspect, although it has so far not done so.

Dream Team, a youth-skewed drama series about a football team produced by Hewland, is one of its most successful original shows. It debuted in October 1997 in an early evening slot and has attracted consistent audiences of around half a million. LWT made Ibiza Uncovered, a 'docu-soap' about young British holidaymakers, which pulled in audiences of over one million and spawned follow-up series filmed in the Carribean, Greece and Miami.

BSkyB has also experimented with entertainment formats including gameshows and talk shows.

BSkyB said it 'dramatically' increased its investment in original programming in the 1998 financial year, although overall spending on entertainment programming fell 4 million pounds as a consequence of the closure of Sky Two.

According to *New Media Markets* (December 10, 1998), BSkyB aims to increase the level of original programming to 50% of primetime in this latest phase of the development of Sky One. Its new programming includes a comedy series called *The Strangerers*, from the creator of the cult BBC comedy Red Dwarf, and original drama commissions are also reported to be in development.

Around 35% of Sky One's 60 million pound programme budget was reported in *NMM* to be allocated to original programming, with plans to increase it to 50%. Average spending on programming increased from 75,000 pounds per hour in 1996 to 150,000 pounds per hour in 1997 and 300,000 pounds per hour in 1998.

James Baker, head of programming for Sky One, told NMM (Dec 10, 1998): 'Recently the appeal of US shows has dried up in terms of the UK audience. Instead of being completely at the whim of what the studios are going to come

up with, we decided to create our own programming, to offer what we wanted to offer rather than what we had to.'

6.6 Conclusions

BSkyB has thrived in a 'light touch' regulatory environment which has given its managing shareholder News International great freedom to manoeuvre. This freedom stems in part from the fact that BSkyB used a satellite system (Astra) which used frequencies which regulators had not anticipated would be used for television. It was, therefore, subject to only limited regulation, unlike services like BSB which used high-power frequencies regulated by national governments.

As a satellite programming service based in the UK but uplinked to satellite from another European Union member state – Luxembourg – BSkyB has not fallen under the same programme content regulation as UK commercial terrestrial channel. Until licensing criteria were changed in the 1996 Broadcasting Act, BSkyB operated under a 'non-domestic' satellite licence.

Such programme content regulations as do apply to BSkyB have not been enforced. BSkyB is now increasing its investment in original programming not because of public pressure from UK regulators but for its own, strategic reasons.

Programming costs, revenue and subscribers

Year to June 30	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999 9 mths to 31 March**
Sports (£m)	na	27	66	72	105	131	174	287	na
Films (£m)	na	100	82	97	117	146	202	195	na
Entertainment (£m)	na	na	na	na	na	na	79	75	na
Third party channels (£m)	na	na	na	na	na	na	114	130	na
TOTAL (£m)	**na**	**161**	**189**	**231**	**329**	**416**	**569**	**687**	**na**
Revenue	93	233	380	550	778	1,008	1,249	1,434	1,144
Pre-tax profit/loss (£m)	-759	-188	-76	93	155	257	314	271	
No. of subs (m)	na	na	na	na	na	na	6,372	6,899	7,278

7. Television Broadcasting in India

7.1 Industry Characteristics

The Indian broadcasting sector has undergone rapid change during the 1990s and currently comprises about 70 national or regional television channels that are provided by public and privately owned commercial media operators including foreign company. Whilst transformation of the sector has occurred in a regulatory vacuum there is general agreement among political parties that the broadcasting industry should remain controlled by Indian citizens although the exact level of foreign equity is fiercely debated. In the meantime a wide range of local and foreign media companies have subsequently entered the market and provide a diverse range of content ranging from International satellite services, localised versions of western programs and material which has been developed specifically for particular ethnic and linguistic markets.

Establishment of foreign services in India has radically changed the broadcasting market and forced the national broadcaster *Doordarshan* to revamp its schedules to compete with the sophisticated programming carried by the satellite services. However, consumption of foreign services is largely confined to the educated urban elite rather than the vast audiences that are served by *Doordarshan*. Despite the widespread use of English among the urban elite, cultural and linguistic preferences has meant that foreign broadcasters have begun providing services in local languages in recognition that this increases the potential audience.

7.2 Market Characteristics

7.2.1 National Audiences

The total television audience in India is more diverse and almost as large as the European and North American markets combined. While the potential English-language market is estimated to be as large as 300 million, the country's ethnic diversity has created several other significant audiences based around particular languages, castes and classes (Mehta 1998). By 1997, satellite TV reached about 20 million homes that receive satellite services out of an estimated 60 million homes that have a television set (Mehta 1998).

Nationally between 50-60 per cent of the audience comprises Hindi speakers who are served by *Zee-TV*, *Jain-TV* and *ATN* which was established by a UK-based business group. The diversity of the market has supported the establishment of broadcasting services which serve regional language or cultural groups within the country. The range of languages spoken in India has encouraged local and foreign broadcasters to devise strategies to capture audiences. According to Thomas (1996) there are about 28 satellite broadcasting services that are commonly focussed on reaching particular ethnic communities

including *Jain-TV* (programming in Tamil and Bengali); *SunTV* (Tamil); *AsiaNet* (Malayalam); *Udaya* (Kannada); and *Eenadu* (Telugu).

7.2.2 Local Audiences

Regional language differences also reduce the overall markets reached by the major broadcasters. For example, the Hindi-language *Zee-TV* reaches about 20 per cent of the total audience in the capital of Tamil Nadu State Madras, while the Tamil-language *Sun-TV* is received in almost 60 per cent of households. This roughly reflects the ethnic composition of the city.

7.3 Policy & Regulation

7.3.1 Broadcast Licenses

Broadcasting regulation in India remains in a state of flux due to the uncertainties of the political environment and the lapsing of a bill in 1997 that would have increased regulation of the sector and established an independent regulatory authority. However, in September 1997, the *Prasar Bharati* (Broadcasting Corporation of India) Act 1990 came into force to regulate the operations of *Doordarshan* (*Prasar Bharati Corporation*) (Thussu 1999).

7.3.2 Summary of the Indian Broadcast Bill (1997)

The objective of the Bill is "to provide for the establishment of an independent authority to be known as the Broadcasting Authority of India, for the purposes of developing, promoting, facilitating and regulating broadcasting services in India so that they become competitive in terms of quality of services, cost of service and use of new technologies, apart from becoming a catalyst for social change, promotion of values of Indian culture and shaping of a modern vision. It will also curb monopolistic trends in this sensitive field, so that people are provided with a wide range of news and views."

The functions of the Broadcasting Authority of India will be:

- to plan frequencies for the purposes of broadcasting services;
- to grant licences for broadcasting services;
- to ensure a wide range of broadcasting services are available throughout India;
- to ensure competition in the provision of broadcasting services;
- to ensure the provision of high quality services and a wide range of programs;
- to ensure programming appeals to a variety of tastes and interests;
- to determine the program code and standard;
- to set technical and other quality standards.

The Authority will also grant licences for terrestrial radio broadcasting, terrestrial television broadcasting, satellite radio broadcasting, satellite television broadcasting, direct to home broadcasting and, local delivery services. No

person will be granted a licence for more than one category of services and there will be restrictions on cross media ownership between newspaper and broadcasting sectors.

Under the proposed Broadcasting Bill, any corporation wishing to transmit satellite broadcasts receivable in India will also be required to be locally licensed. However, the proposed Broadcasting Authority would be given discretion to allow foreign satellite-broadcasters to provide services without a licence if they were free-to-air, carried no advertising and contained only sports or international news and current affairs (Leonard & Harrison 1997).

The Bill also contained provisions which would have limited foreign-ownership to 49 per cent equity. Although this figure is high by regional standards there was an additional requirement that any potential direct-to-home satellite provider was required to build uplink facilities in India rather than rely on other transmission points (Leonard & Harrison 1997).

In 1995 the Indian Government introduced the Cable Act 1995 to regulate the estimated 60 000 service providers who have built cable networks that connect about 14 million homes throughout the country. An Amendment Bill has been proposed which will require cable providers to include the three *Doordarshan* channels in services (Chaudhuri 1999). The Cable Act currently prevents operators from having more than 49 per cent foreign equity.

7.3.3 Content Regulation

If the Broadcasting Bill (1997) is resurrected by the current Government the Broadcasting Authority would be given discretion to regulate television content carried by licensed services. There are no specific regulatory limits on the level of foreign programming as the nature of audience demand largely determines that the bulk of content is produced in India. The Bill provided a range of guidelines including:

- Nothing in programs should offend good taste or decency or be likely to encourage or incite crime, or lead to disorder, or be offensive to public feelings;
- news programs should be presented with accuracy and impartiality;
- matters of political or industrial controversy or relating to current public policy should be treated with impartiality;
- any religious content must be treated responsibly.

7.4 A brief history of television in India

India introduced television as medium of public education that enabled the state to control content and promote social, political and cultural unity. Beginning from 1959, the Government partly operated *Doordarshan* and the related *All India*

Radio (*AIR*) as propaganda services that enabled the ruling Congress Party to counter the scrutiny of the independent print media. However, liberalisation of the sector in the early 1990s and the establishment of new commercial operators forced the *Doordarshan* to improve its technical and program performance by introducing more entertainment and popular content. The Indian Government also reacted to competition by increasing the reach of Doordarshan by funding installation of more than 800 terrestrial broadcast transmitters since 1987.

The National Government has also given consideration to allowing television and radio broadcasters operated by State governments latitude to commercialise services to compete with the popular privately operated services.

Concurrently, the FM radio sector is also undergoing rapid transformation. Recently *AIR* has commercialised its FM service that reaches a potential audience of 10.1m and allowed private operators including the *Times of India Group* to provide up to nine hours of programming to the network which is exclusively available in major cities. Consideration has also been given to allowing foreign media companies to control up to 25 per cent equity in FM radio stations (Bansal and Doctor 1998).

7.5 Ownership and Control (National & Foreign)

Foreign ownership, rather than content, is the major regulatory issue in television broadcasting due to concerns that such services will not promote national cultural and social objectives. The former Government, led by the Hindi nationalist party, the Bharatiya Janata Party (BJP), proposed to reduce levels of foreign ownership to 20 per cent of the total shareholding in any broadcaster, although the Broadcasting Bill would permit up to 49 per cent equity (Mehta 1998). This issue remains current with politicians and local media operators who continue to express concern that foreign broadcasters are motivated by profit rather than to contribute to Indian society (Thussu 1999).

However, provisions of the Broadcasting Bill also address cross-media ownership. Restrictions on cross-media ownership have been criticised by both print and broadcasting interests due to concerns that it unfairly fetters

commercial operations. The President of the Indian Newspaper Society, Mammem Mathew said:

> 'Cross-media restrictions are essentially Western concepts that have no relevance to the present Indian scenario' (ENS 1999).

It has been proposed that media owners be restricted to holding a licence for a particular broadcasting distribution method (eg a satellite broadcaster could not also be licensed to provide cable services). Also owners in any category, or the print media could not hold more than a 20 per cent stake in any other broadcasting company (Mehta 1998).

7.6 National Broadcasting

7.6.1 Doordarshan

Doordarshan provides services that reach almost 450 million people across 87 per cent of the country. It carries programming in local languages to address the cultural diversity of regional viewers and has switched its focus from educational services to entertainment in order to compete with commercial services. Use of the Indian National Satellite to increase signal distribution enabled *Doordarshan* to generate a 20 fold increase in earnings between 1982 and 1990 (Thussu 1999).

In 1998 *Doordarshan* provided 19 channels that served national and regional markets and was planning to introduce a 24-hour sports channel to compete directly with new local and foreign broadcasters. Many of these commercial channels were previously limited to particular states or language groups but have subsequently been rebroadcasted nationally via satellite to provide competition to *ZEE-TV* and the other major commercial stations (Thomas 1996).

7.7 Cable & Satellite Broadcasting (Major Services)

Liberalisation of the cable and satellite market during the early 1990s led to a rapid increase in the numbers of households that receive these largely premium services. By 1996 about 14.2 million households received cable or satellite broadcasts. These services largely follow US-style commercial television broadcasting formats, including substantial levels of 'infotainment'.

7.7.1 ZEE-TV

ZEE-TV was the first of the satellite services to begin operation in India and has largely developed in a policy vacuum related to foreign-ownership. It is 49.9 per cent owned by *News Corporation* and has become the most successful of the cable and satellite services by providing a high quality program schedule that often indigenises successful international program formats in order to address audience particularities. *ZEE-TV* has developed a programming mix including

MTV-style music shows and technically sophisticated local films which appeal particularly to the urban middleclass youth market. The service also uses 'Hinglish' which is a language that is almost exclusively used by the lucrative and growing youth audience segment (Thussu 1999).

In 1997, *ZEE-TV* had a 29 per cent market share of Indian households with cable or satellite connection and was widely available to the 24 million Indian diaspora living in Asia, Europe, the USA and Africa. It also operates a 24 hour service that is available in 40 countries across Asia and provides four channels: *ZEE-TV*, ZEE *Cinema, ZEE TV India* and *Music Asia. Zee-TV* is currently undertaking an expansion into North American and European markets (Thussu 1999).

7.7.2 TVi

The Business India group started *TVi* as a dedicated 24-hour news and current affairs channel. They recently affiliated with *CNN World Report*.

7.7.3 Star-TV

Star TV, owned by *News Corporation*, provides a range of channels in India. *Star* has added Hindi subtitles to movies screened on *Star Movies* and has dubbed popular US soap operas into local languages. From 1996 it also began to produce local content in India and has recently introduced a 24-hour news and current affairs channel *Star News*.

7.7.4 Sony Entertainment Television (SET)

Sony holds a 60 per cent stake in the SET in India and provides a local news and current affairs service in addition to its regular schedule of channels that are provided throughout Asia.

7.7.5 Other Services

A range of other services are provided via satellite and cable distribution including; *BBC World* which provides Hindi specific programming in addition to its global news and entertainment services; and, the *Discovery Channel* which also dubs its documentaries to increase the potential audience.

7.8 Future Developments

No time has been set for the Broadcasting Bill to be debated by the Indian Parliament. Commentators suggest that the Bill may be broken into parts to allow amendments to be made to specific broadcasting activities, such as those concerning foreign ownership and control provisions (Chaudhri 1999).

7.9 Conclusions

- Broadcasting and media regulation affecting foreign ownership, cross-media rules and content is currently volatile. Resolution will require agreement between various political forces in the National Government.

- Under the proposed Broadcasting Bill, the Parliament is considering limiting cross-media ownership to prevent companies from controlling more than 20 per cent equity across media if they already hold majority control of newspaper publishing or broadcasting businesses. The free-to-air broadcasting sector is dominated by the Indian national broadcaster *Doordarshan* which operates several channels primarily directed at particular ethnic audiences. Significant foreign-equity has become evident in premium satellite broadcasters that serve sections of the Indian audience (eg Star-TV and ZEE-TV). The Indian Parliament is debating whether to set foreign-ownership levels for premium broadcasters at either 20 or 49 per cent equity.

- Foreign-content is largely restricted to premium satellite services. Both foreign and Indian broadcasters have indigenised international programming formats by using local presenters and languages to increase potential markets beyond the English-speaking middleclasses.

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8. Television Broadcasting in Thailand

8.1 Industry Characteristics

The Thai Government remains committed to maintaining majority local ownership over terrestrial broadcasting services that reach most of the population, however, foreign companies have been permitted to take minor equity holdings in the satellite and cable networks controlled by consortiums of Thai businesses and government agencies. The increasing sophistication of the Thai television production industry and the preferences for local content has also reduced the demand for foreign content although it is readily available on pay-television channels that are primarily available in Bangkok or towns that attract significant numbers of foreign tourists.

Thailand has a vibrant television sector which includes six national terrestrial networks that are largely supported by advertising and two satellite services which utilise domestic telecommunications satellites. The country acts as a regional hub for services in South-east Asia and especially for the underdeveloped markets of Laos, Cambodia and Burma which are covered by the Thai-Sat 1 & 2 footprints.

During the late-1990s several Thai media companies pursued joint-venture arrangements with US and Asian television production and distribution companies to develop content for local and regional audiences. Ownership of most Thai commercial television services is held by leading Sino-Thai business companies. These companies have extensive links with Chinese communities throughout Asia and largely dominate Thailand's business sector.

The collapse of the Thai Baht in 1997 against major currencies greatly increased the costs of program purchasing and reduced the ability of Thai broadcasters to schedule content from Europe and the US. This has encouraged an increase in local program production which is being conducted by a burgeoning group of companies including *Grammy Entertainment*, *Katana*, *Five Star Productions*, and *Media of Medias*.

8.2 Market Characteristics

8.2.1 National Audiences

Thailand is a rapidly developing country with a population of about 60 million that has a shared language and culture although there is some regional variation with Muslim communities present in the south and Lao and Khmer influences present in eastern provinces. Economic growth has stimulated ownership of television sets with more than 90 per cent of homes in Bangkok; and

approximately 80 per cent of homes in rural areas having a set to receive services generated from Bangkok.

The most notable characteristic of broadcasting in Thailand is that it is largely networked from Bangkok into the provinces although there are some small broadcasting markets in larger regional centres that cater to the particularities of local conditions.

The audience is segmented in various ways, not only between Bangkok and the countryside, but also into largely urban demographics of which youth is the most attractive to international and local advertisers.

8.3 Policy & Regulation

The Thai broadcasting industry is overseen by a number of Government agencies including the Mass Communication Organisation of Thailand (MCOT), the Thai Army, and the Public Relations Department (PRD). These agencies license private operators to provide commercial services which are funded by advertising revenue. The sector underwent substantial transformation and liberalisation following the 1992 democracy demonstrations when the Government was accused of muzzling news reports.

8.3.1 Broadcast Licences

Licenses are largely issued by MCOT and the PRD although fees are not paid. Six terrestrial networks operate on VHF, UHF and MMDS frequencies throughout the country. In 1994 the PRD issued a further 20 licences for cable television networks serving Bangkok and regional cities. By 1998 few of these services had begun operations due to the economic collapse.

8.3.2 Content & Regulation

Although Thailand is often considered to be the most liberal of South-East Asian countries there are draconian laws that may be applied to regulate content particularly if it implies criticism of social, cultural or political institutions. Thus all broadcasting and film productions are scrutinised by censors from a variety of Thai Government institutions (McElhinney 1999). The electronic media is regulated under the *Radio and Television Broadcasting Act BE 2498* which determines service licensing, content standards, and the manufacture of receivers (Wirasak Salayakanond 1998).

These conditions have led to a Thai-language television industry that is largely dominated by entertainment and politically-neutral informational and educational programming.

Free-to-air broadcasting schedules are dominated by drama series, serials, current affairs and sport, nearly all of which is produced in Thailand. Language

differences and a strong television production sector reduces demand for imported content except for the popular soap operas and dramas produced in Hong Kong and Taiwan. (Anon 1997).

The pay-television sector has a higher proportion of imported content especially through channels providing global or regional services such as *Star-TV*. MCOT required the merged satellite service operated by *International Broadcasting Corporation* (IBC) and *Universal Cable TV* (UTV) to increase the amount of local programming above the 10 per cent requirement previously in place (Crampton 1998). Pay-TV operators including *UBC* and *Thai Sky* have also sought to negotiate with global suppliers to obtain content that has pre-recorded Thai language soundtracks or sub-titling.

8.4 Brief History of Television in Thailand

Television was introduced in Thailand in 1956. A second channel owned by the military, with services supplied by a private contractor, began broadcasts in 1958 with a further 5 television stations serving the provinces under the administration of the Department of Public Relations commissioned up to 1972. By 1979 television services had reached the entire country although in some areas of mountainous terrain reception of terrestrial broadcasts is poor and is now provided via direct broadcast satellite. Colour television was introduced in 1968 by a channel under Army supervision making Thailand also the first Asian country to use this format (McElhinney 1999).

8.5 Ownership and Control (National & Foreign)

Thai broadcasting laws largely prohibit foreign ownership of broadcasters although minor equity is allowed. The Broadcasting Act (1995) also requires that licence holders and senior staff of television stations be Thai citizens and have recognised qualifications in media or communications studies. However, the economic crisis in 1997 has led to a general relaxation of local ownership regulations across a range of sectors (McElhinney 1999).

The Thai Government prohibits foreign broadcasters from obtaining licences to directly provide satellite services. This has meant that global media services such as *Star-TV*, *BBC-World*, *Disney*, *NHK* and the *Discovery Channel* are supplied on channels maintained by major Thai conglomerates. The two largest pay television operators were forced to merge due to rising costs generated by the devaluation of the Baht during the economic crisis in 1997.

8.6 National Broadcasters

8.6.1 Channel 3 - Bangkok Entertainment Company (BEC)

Channel 3 changed its broadcasting schedules and programming to compete with its rival Channel 7 for audience share, however, it continues to lag behind. It is privately owned and had a capitalisation of about $160m prior to the economic crisis.

BEC is also one of the largest television production companies in Thailand. It leases its transmission facilities from MCOT and has a nationwide distribution that reaches almost every household. Its schedules are about 70 per cent local drama and entertainment content with imports from a variety of countries including China, Japan, the US, Hong Kong, Australia and Germany.

BEC has a joint venture arrangement with the Hong Kong-based *TVBI* to produce a Thai-language general entertainment channel for distribution on cable and satellite networks throughout Asia. Programming has been dominated by material from TVBI's catalogue.

8.6.2 Channel 5 - Royal Thai Army TV

The company, operates *Channel 5* for the military and also holds the licence for *Channel 7*, which is being prepared for privatisation. It has been the most innovative free-to-air broadcaster in Thailand since it began services in 1958. Channel 5 became a 24-hour service in 1995 and now reaches about 66 per cent of Thai households (9 million homes).

In 1997 the station had a news and sports based format which earned it about 13 per cent of the national audience and a 21 per cent share of broadcasting advertising revenues. A breakdown of programming sources follows:

- In-house productions (about 15%);
- Domestic commissions (75%); and,
- Imports (10%),

Its weekly programming schedules are being refined to increase sport, but currently include:

- Entertainment (45% of airtime);
- Documentaries (25%);
- Hourly news (20%); and,
- Sports (10%).

Movies are dubbed into Thai and typically sourced from China, Hong Kong, Japan, the US, and Taiwan.

Channel 5 has an agreement with *CNN* to produce the Thai version of its World Report and provides a brief weekly roundup for *CNNI*. It has also established a daily Thai news program, with English subtitles, for US cable network *KSCI TV Channel 18*. The program is part of a two-hour program developed for Thais living in the US.

8.6.3 Channel 7 - Bangkok Broadcasting & TV Company

The Thai army privatised the Channel in 1991 which reaches almost the entire national market of 13 million households. It had consistently dominated both audience share and advertising revenue until other channels revamped program schedules during the early 1990s. Despite the severe impact of the economic crisis in 1997 on advertising revenues, it retained about 36 per cent of the total.

Channel 7 broadcasts about 21 hours per day and produces almost 75 per cent of programming in-house, with entertainment programming accounting for 60 per cent of the total. Long running Thai dramas draw the largest audiences to *Channel 7*.

Imported programming is sought from Japan, Hong Kong, the US and Europe. It has a co-production agreement with *Turner Broadcasting System* to produce the *Cartoon Network Show* with *Hanna Barbera*. It also has a small share in the merged *UBC* pay service. The *Bangkok Entertainment Company* and *TVBI* of Hong Kong have plans to establish a regional satellite channel (US Department of Commerce 1999).

8.6.4 Channel 9 & Channel 11

MCOT operates both Channels which have traditionally operated schedules which provided informational and educational services aimed at rural communities. However, the decline of the audiences as the more commercial channels increased transmissions outside Bangkok prompted a review of schedules. Channel 11 engaged *Asia Vision Co,* a subsidiary of the major Thai media group *Wattachak* (owner of *Thai Sky TV*), to provide a more commercial orientation to schedules including increased entertainment programming. The revamp lifted Channel 11's rating to 3 per cent of the national market whilst channel 9 maintains fairly static share of about 10 per cent.

News and information programs on Channel 11 are provided by *Worldwide Television News* and *NHK* from Japan.

8.6.5 Independent Television

In 1996 a sixth terrestrial television service was launched by ITV which is a subsidiary of *Siam Infotainment*. The service utilises the UHF frequency to reach a

potential audience of more than 1.7 million homes in Bangkok. Plans to expand the service nationally have been stalled while funding is raised to build transmission infrastructure.

Siam infotainment is owned by a consortium of Thai banks and media companies including *Kantana* and the *Nation Publishing Group*.

8.7 Cable & Satellite Broadcasting (Major Services)

8.7.1 UBC

The merger of the two largest pay-television services IBC and UTV in 1998 created the preeminent satellite broadcaster United Broadcasting Corporation Group (UBC) and brought together a formidable group of Sino-Thai media interests that have regional and international businesses across broadcasting, telecommunications and new media. UBC Shareholders include:

- Shinawatra Computer & Communications;
- Charoen Popkhand Group;
- US-based UIH;
- BBTV;
- Grammy Entertainment; and
- Multichoice International Holdings (South Africa).

UBC utilises a range of technologies to deliver its services to subscribers including optic-fibre cabling and MMDS. By 1998 it was estimated to have more than 300 000 subscribers.

UBC has a joint venture with US-production company *VIACOM* to co-produce and distribute television programs for both Thai and other regional audiences.

8.7.2 Thai Sky

A second pay television operator *Thai Sky TV* (*Siam Broadcasting & Communication*) has been dwarfed by the merger of its two rivals *UBC*. It is estimated to have about 50 000 subscribers in Bangkok, via MMDS, and around the country via DTH satellite broadcasts.

Thai Sky emphasises local programming to attract subscribers outside Bangkok where English is not widely spoken. In 1996, *Thai Sky's* sports programming represented 20 per cent of broadcasting time.

8.8 Future Developments

Thailand's broadcasting sector will continue to be affected by the economic downturn which forced the merger of the major pay-TV operators and has placed a break on the 20 per cent annual growth in advertising earnings that

were registered prior to 1997. Also, the large pool of licences issued by the Government prior to the economic crisis has the potential to destabilise the television industry if they are taken up during the recovery.

National sovereignty and independence are core cultural and political values in Thailand which underpin restrictions on foreign ownership across every sector of the economy including broadcasting. Major change is unlikely in the medium term although some liberalisation has occurred to allow minor equity holdings to be obtained in some activities in the broadcasting and communications sectors. There is unlikely to be any significant dilution of regulations which prevent foreign-ownership of broadcasters in the short-to-medium term. This outcome is likely to be reinforced by the domination of the industry by influential Sino-Thai business interests and government agencies. However, it is worth noting that the Thai broadcasting industry is also inherently unstable due to changing political conditions. In 1995 the Director-General of MCOT was murdered by a hired gunman after he revoked several radio station licences issued to a member of the previous Government.

8.9 Conclusions

- The Thai Government has begun a program of liberalisation of broadcasting and communications sectors that includes the eventual privatisation of free-to-air television channels.

- Several Thai broadcasters and publishers have significant cross-media interests in television, radio and newspapers. Foreign companies are likely to be restricted to minor-equity holdings following privatisation. Broadcast licence conditions prevent majority-foreign ownership of pay television services.

- Foreign-content is a small component of overall broadcasting schedules on free-to-air television. Pay-television operators have been required to increase levels of local content carried in services beyond 10 per cent. Pay-television operators *UBC* and *Thai-Sky* have negotiated with foreign producers to obtain Thai-language content and to develop programming for the market.

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9. Television Broadcasting in Singapore

9.1 Industry Characteristics

Despite significant regulatory changes that have liberalised the broadcasting sector in Singapore, restrictions continue to prevent majority foreign-ownership or control over services which are available in the country.

In 1994 the Government restructured the Singapore Broadcasting Corporation into five divisions. The privatised successor companies are Television Corporation of Singapore Pte Ltd (TCS), Singapore Television Twelve Pte Ltd (STV12), Radio Corporation of Singapore Pte Ltd (RCS) and SIM Communications Pte Ltd (SIMCOM), all of which come under the holding company - Media Corporation of Singapore Pte Ltd (MCS). SIMCOM operates terrestrial transmission and delivery services for broadcasters, both within and outside the MCS Group, as well as satellite uplink/downlink services.

TCS includes channels 5 & 8; TV 12 has been set up for public service broadcasting and will provide Malay and Tamil programming as well as an arts and documentary service via UHF; and, the Radio Corporation of Singapore which currently operates 10 FM stations.

The reform process was driven by Government recognition that the existing controls over broadcasting would be challenged by changing technologies, that competition was increasing from off-shore services particularly from Malaysia and Indonesia, and that censorship of foreign news inhibited the operation of the stock market (Hukill 1998). Strict control over satellite services had also created significant unmet audience demand particularly among educated and affluent citizens.

Meanwhile, television and telecommunications organisations in Singapore were also investing in media and infrastructure projects throughout South East Asia including the Thai satellite communications sector (Hukill 1998). This experience had aroused interest in establishing Singapore as the satellite broadcasting hub for Asia through the extension of concessions to foreign companies.

9.2 Market Characteristics

9.2.1 National Audiences

With a multi-ethnic population (Chinese, Malay and Tamil) of about 3 million, Singapore is a small television market that is characterised by a relatively wealthy audience. However, its proximity to Indonesia and Malaysia has meant that television services broadcast from Singapore are likely to reach a far greater

potential market whilst facing inadvertent competition from neighbouring countries.

9.3 Policy & Regulation

In 1994 the Government approved the Singapore Broadcasting Authority Act. The Act also allows the Government to offer public shares or debentures in the new companies. However, no decision has been made on the timetable for privatisation.

The legislative changes in 1994 included the introduction of a new regulatory regime for radio and television which operates under the supervision of the Singapore Broadcasting Authority (SBA). The SBA oversees the broadcasting sector including the regulation of content and licensing of services and reception apparatus. Despite the liberalisation of the broadcasting sector, Singapore retains a ban on television receive-only infrastructures as commercial and social protectionist measures (Hukill 1998).

9.3.1 Content & Regulation

The Government of Singapore has traditionally maintained a strict regime of media controls and censorship. The SBA maintains regulations which prohibit programmes from being screened which contain nudity, undue violence or vulgar language. Guidelines also exist which encourage journalists to self-censor news stories. The Internal Security Act and the Official Secrets Act also reduce the capacity of media outlets to provide local news apart from material sanctioned by the Government. The restrictions do not generally apply to foreign and international news reports unless they refer to domestic politics. The Government monitors broadcasts for compliance with these laws.

9.4 Brief History of Television in Singapore

The Government began operating two television services in 1963. Following the country's brief Federation with Malaysia (1963-1964), the Government provided radio and television services through the Department of Broadcasting, also known as Radio Television Singapore (RTS), which was an agency under the Ministry of Culture. Following Singapore's Independence in 1965, RTS was used to further nation-building objectives and promote economic development following a model established by the ruling People's Action Party. During this time broadcasting operated in a climate of strict state censorship and propaganda. Restrictions on news and information were also imposed on the print media, private satellite reception facilities were banned and a television licensing scheme was imposed.

In 1967 the two television channels broadcast for six hours on weekdays and 11 hours on weekends. A children's educational service was also added.

The strong economic growth of Singapore enabled RTS to use the latest broadcasting technologies to enhance services. In 1974 colour television, using the 625-PAL system, was introduced and RTS began to utilise satellite reception facilities to access international news stories which were edited and retransmitted terrestrially.

In 1979 the Government passed the Singapore Broadcasting Act (SBA) which turned RTS into a statutory company SBC, which came under the jurisdiction of the Ministry of Communication and Information. The SBA was amended in 1985 to permit the SBC to:

- provide television and sound broadcasting services for disseminating information, education and entertainment;
- exercise licensing and regulatory functions for the sale and use of television receivers and broadcasting apparatus; and,
- act as Singapore's representative for broadcasting matters.

In 1980 dubbing and subtitling were introduced in the four official languages (English, Malay, Mandarin and Tamil) to increase programming accessibility.

9.5 Ownership and Control (National & Foreign)

Despite the partial liberalisation of the broadcasting sector the Government maintains effective control over the company structures and operations of the television industry (Hwa 1999).

Since the break-up of SBC Foreign companies have been permitted to have minor equity holdings in the subscription television services available domestically.

However, the Government maintains a strong regulatory environment for the domestic broadcasting industry that requires pan-Asian services to be provided only via local companies it has actively sought to attract global broadcasters to use Singapore as a base for satellite uplink facilities for services provided to other Asian markets. A range of pan-Asian broadcasters have utilised these facilities including ABN, ESPN, STAR Sports, HBO Asia, MTV Asia, Sony Entertainment Television, the Discovery Channel and Disney. Most of these broadcasters appear to have been attracted from original bases in Hong Kong by four-year tax holidays and liberalised licensing arrangements.

Following liberalisation an industry body has been formed to represent the new broadcasters. The Association of Broadcasters (Singapore) (ABS) was launched in May 1998 to represent the interests of the new television and radio broadcasters that were established following the breakup of the SBC. It has 10 Corporate members, including

- Television Corporation of Singapore
- Radio Corporation of Singapore
- Singapore Television Twelve
- NTUC Media Co-operative Ltd
- Rediffusion
- SAFRA Radio
- Sony Entertainment Television
- CNBC Asia
- Discovery
- Interactive Media Services

9.6 National Broadcasters

The major national broadcaster, TCS has refined programming schedules to appeal to the mass audience through a combination of entertainment, sport and information programs in English and Mandarin. Locally-produced programs account for about a third of airtime. The combination of 24-hour broadcasting on the two flagship channels and introduction of a new broadcasting schedule around popular situation comedies is credited with lifting television viewing in Singapore and giving TCS about 75 per cent of the market.

TCS controls the two most popular TV channels that provide either English-language or Mandarin services. The two channels provide about 50 per cent of programming through inhouse productions. TCS also provides the Premium UHF service which screens English-language programs while maintaining a VHF frequency to broadcast the Prime service for the small Tamil and Malay audiences. Both channels attract about 5 per cent audience shares.

TCS has also been able to build a cross-border audience as far north as Malacca on the Malaysian peninsula. Although SBC faces little competition from local channels, the ready availability of Malaysian Government run television services including RTM1, RTM2 and TV3 threaten audience shares by rating up to 13 per cent of the market. The Malaysian Government-owned but quasi-commercial TV3 has been particularly successful in attracting audiences in Singapore by providing a number of popular-Cantonese language serials.

Broadcasting services in Singapore are supported through advertising and television set licence fees which account for about 20 per cent of annual revenue. The annual colour television receiver fee has remained at S$110 since 1994. In

addition to direct revenue from advertising, television broadcasting is supported by an annual Government grant to support the production, acquisition and broadcasting of public service programs, news, current affairs, and special interest programs.

Advertising earnings have increased substantially during the 1990s although the restructure of the broadcasting sector has led to a recent decline in hourly charging rates due to competition between broadcasters. Restrictions on advertising apply permitting only 12 minutes of commercials to be screened per hour.

Further income is generated from program sales (particularly Cantonese language material) to other broadcasters, subsidiary business ventures including weekly television guides and sponsorships for activities such as sports. Cantonese language productions have been sold to broadcasters in more than 30 countries with major markets including Malaysia, China, Taiwan, Thailand and Brunei (Hukill 1998).

Moreover, TCS operates a pay-television channel in Taiwan through *Filmate* that is available in 2.5 million homes. However, the service is not forecast to return a profit until 2002 (Anon 1997).

9.7 Subscription Broadcasting

Subscription television was introduced in 1992. The service is operated by Singapore Cable-Vision (SCV) which is a joint venture between Singapore International Media (31 per cent) Continental Cable Vision of the USA (25 per cent); Singapore Technologies Ventures (24 per cent); and, Singapore Press Holdings (20 per cent). By May 1997 SCV had passed more than 410 000 homes with its cable but had only managed to sign-up about 55 000 subscribers to its services.

Subscriptions involve an initial application fee and monthly payments of S$12.36 per premium channel package. SCV offers 34-channels including: NewsVision (24-hour news featuring CNN); a 12-hour English-language movie channel; and, an 18-hour per day Chinese Variety channel. The fourth channel is an MTV service.

Singapore Telecom (ST) and SBC have developed plans to establish a nationwide 30-channel cable service. ST has also investigated building and providing a video-on-demand service that is likely to be completely operational after 2000.

9.8 Future Developments

In the medium-term Singapore is unlikely to allow the establishment of a private broadcaster in competition with the Government-sanctioned services. Hukill

(1998) suggests that independent program producers including foreigners may have opportunities to provide content to existing channels or through retransmission broadcasts that are controlled by the Government.

Singapore is also likely to introduce digital television broadcasting by 2000 following the announcement in May 1999 of the adoption of the European Digital Video Broadcasting (DVB) standard as the platform for terrestrial digital television. The DTV Committee that carried out an inquiry into technical characteristics of competing platforms recommended that consumers have access to DTV terrestrial, cable and satellite, using an integrated television set or a set-top box. SBA will let the market determine configurations and pricing (SBA 1999).

9.9 Conclusions

- The Government has recently initiated privatisation of radio and television broadcasting services but presently retains majority ownership of the new companies. Foreign-media companies are unlikely to be able to obtain majority equity if these companies are fully privatised. Television services will progressively switch to digital transmission from 2000.

- Foreign-media companies (eg Continental Cable Vision) have been permitted to have minor equity holdings in the pay-television service. A significant number of foreign and pan-Asian satellite television services are uplinked from Singapore but domestic downlink access is only possible through the local pay television service.

- Free-to-air broadcasters provide services in English, Cantonese, and Malay. Foreign-content varies between services but is generally limited to about 33 per cent of airtime on these channels. All content carried by local channels is monitored and must be approved by the Singapore Broadcasting Authority.

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Competition and Content

A Report

by

Tasman Institute

July 1999

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About Tasman Institute

Tasman Institute, a privately funded non-profit think tank, was formed in 1990 by Dr. Michael G. Porter. The objective was to provide research, advice and practical strategies on a broad range of issues, including economic restructuring and reform in Australia, New Zealand and the region. Tasman Institute initiated the infrastructure reform program in **Project Victoria**. This reform agenda underlay many of the economic reforms in Victoria, particularly in electricity and transport.

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EXECUTIVE SUMMARY

This Report assesses some of the key economic issues associated with the planned introduction of digital broadcasting, and in particular, the policy on the issuance of a new channel for digital broadcasting or datacasting. Before reviewing some of the current and pertinent issues in relation to digital broadcasting and competition in broadcasting, we first review some of the key points to emerge from a close analysis of the economics of information and broadcasting.

Outline of the Report

The outline of this Report is as follows: Chapter 1 canvases the major issues facing FTA television in the digital era. Chapter 2 examines some of the relevant economics of information and broadcasting, as well as introducing the major players in the television broadcasting industry. Chapter 3 examines the effect of the evolution of technology such as cable TV, satellite television, broad-band modems and the Internet on the current FTA arrangements (***Model A***). Chapter 4 assesses the costs and benefits of the introduction of a new channel or competitor into the FTA television industry (***Model B***). Chapter 5 analyses the costs and benefits of free entry: unrestricted numbers of FTA, Cable and Satellite, and datacasters (***Model C***). Chapter 5 examines the impact of the digital television on commercial FTA television operators' advertising revenues.

Key issues

The perceived significance of broadcasting and media competition in Australia is reflected in the fact that commercial free-to-air television (FTA) is one of the most regulated yet competitive and vulnerable industries in Australia. The fortunes of networks have varied greatly even before the advent of digital competition, revealing a very high elasticity of advertising revenue with respect to the number of channels and the quality of local programming. What is now in store in terms of change is far greater, and highlights the potential vulnerability of those across Australia who benefit from access to the FTA networks.

FTA content is funded via advertising and provided free across a large part of the Australian community. The capacity to fund and transmit quality programming clearly reflects the revenue that can be derived from advertising. New technological possibilities are creating scope for major changes that impinge in a new way on the viability of FTA broadcasting. As a result, FTA broadcasting is now looking down the barrel at what is emerging as the ultimate in competition - an international market place in digital information and entertainment, where literally thousands of channels may be accessed by broad-band modems.

Alternative scenarios

This paper canvasses alternative scenarios varying from the wipe-out of FTA advertising, due to a poorly managed government phase-in of digital competition, through to a dynamic and comprehensive multi-provider model in which FTA is sustained in transition

via the existing competitive channels. In the preferred model, both FTA and other forms of digital information systems bring an expanding range of entertainment and information services to the whole of the Australian community. Under the "wipe-out" model, the number of digital FTA channels is increased, such that advertising on each channel is no longer able to sustain investment in quality Australian content.

The preferred scenario is one in which broadcasting continues to offer viable advertising in support of broadly accessible content, on both analogue and digital channels as currently planned. This scenario is supplemented by the evolution of "narrow casting", broad-band modems, Internet access, satellite and other means for providing information services across the community.

Whereas to date the number of FTA channels has been restricted, to keep advertising revenue at levels capable of sustaining substantial domestic and creative content, the fear now is that highly targeted competition for viewers will erode this advertising base and so undermine the broad base of domestic free-to-air content. For most Australians, broadcast television is the major source of local information, sport and entertainment. Any transition to the new digital world needs to recognise this role of FTA advertising and the content it provides

One policy challenge in relation to broadcasting, datacasting and digital information issues generally is, we argue, to sustain or enhance the excellence of current broadcasting while simultaneously facilitating the evolution of best practice use of emerging data and information technologies. Exactly how the new technologies will unfold is a matter of considerable uncertainty. But by securing the FTA advertising market through existing channels, a vital element of certainty will be retained, thereby reducing the risk of loss of access to a wide range of domestic content currently financed by FTA broadcasting.

The Tasman View

This Report by Tasman Institute argues that FTA broadcasting rights, and the quality and quantity of information, including cultural and local content, will not be optimally or efficiently provided in a simple, or simplistic, competitive model. Rather, FTA television will become financially vulnerable, and much domestic programming will prove unsustainable unless care is taken to facilitate a viable aggregate revenue source, sufficient to fund domestic content.

The fundamental economic basis for these arguments is that the "information" as a commodity is quite different, say, from motor vehicles and most manufactured and service industry products. Preferred policy is not about protecting commercial interests, but about respecting the well-recognised role of information as a social, cultural and economic resource. "Information goods" have public good characteristics (such as the fact that one more consumer of such goods has no effect on costs, but creates increased community benefits). Such public and information goods create knowledge based and cultural externalities and are far from neutral in their distributional impact. Restricting the supply of such information goods, say by making their advertising base uneconomic, would generate substantial losses of well being across the community

The economic nature of "information" and broadcasting

Central to best practice policy in this area is recognition of the unique role of information as a public good, and of FTA broadcasting as a means for efficiently funding broad access to such goods. Preferred policy in this area requires that prices be reflective of the zero marginal cost of servicing extra viewers, ie *free*.

A simplistic economic answer to the question of whether the government should be concerned at impacts of digital competition on FTA broadcasting could be that this new threat is simply "competition at work", and that the information market place can now provide preferred outcomes. The fact that FTA advertising revenue is now increasingly at risk from new competition, could, on this view, be seen to be merely the outcome of economic and technical change, and not a matter for public policy review. Going further, it could be argued that the current restrictions on the number of channels for FTA television should themselves be relaxed, or regulations scrapped, given that much more television content may now, or eventually, be provided through digital competition.

PUBLIC GOOD CHARACTERISTICS

Information has public good characteristics, in that the additional cost of servicing an additional viewer is zero, unless that viewer requires new transmission capacity. Economic efficiency requires that the price of services should reflect costs of extra provision and thus the efficient price of access to television services in such cases should be zero. But if access prices *should* be zero, how then to finance service provision, and in particular quality domestic content reflective of national tastes and aspirations?

One traditional model has been to finance public broadcasting through license fees and/or taxation. A problem with this government model of provision is that customer preferences have little direct effect on content. Commercial FTA broadcasting provides a solution, in that customer preferences for alternative programs provides advertising revenue capable of sustained investment in production, albeit within a competitive framework. However, expansion of the number of channels for FTA broadcasting lowers the value of the advertising dollar, and so there is an optimal number of channels above which revenue falls. Experience and estimates of the elasticity of revenue to an additional channel suggests that at present it is negative – i.e. one extra channel will lower total revenue and reduce the capacity to subsidise the production of the public good of FTA broadcasting.

NOVELTY CHARACTERISTICS – INNOVATIVE TELEVISION

Innovative broadcasting has high-risk characteristics and often requires substantial research and development. Where each individual broadcast has to be self-financed, rather than financed through potential access to a pool of advertising or taxation revenue, there is usually limited scope for product development. These novelty or uncertain demand effects are such that a purely competitive model of television production, absent this funding, tends to create duplication of content rather than real innovation.

The evidence from UK and Australian models of public and private broadcasting suggest that there is rather more innovation production of quality programs than occurs under cable television, with its introduction of a large number of new channels. Each new channel has an incentive or tendency to imitate the other, with convergence on the lowest common denominator as a common outcome.

Issues of access

Uneven access to new digital technologies could mean that under the new digital world there would be increased access to information for some, but reduced access for others. This could occur because of the incapacity under the unconstrained competition model to provide free FTA broadcasting and the content that goes with it. There would seem to be an economic and distributional case for moderating the speed with which we phase out one system in favour of another. This will be the case if some in the community depend far more than others on the content provided on the FTA system, both now and in the medium term future.

New technologies

While we see merit in restriction on new FTA digital channels, this Report is far from opposing the introduction of new digital technologies. Internet access, enhanced by cable modems and new broadband technologies, should not, we argue be constrained, except in relation to offensive content. Competition *in* broadcasting, and *for* broadcasting (eg narrowcasting) will evolve and grow, independently of decisions on new channels.

Future satellite and broadband communications via the Internet already are telling the FTA industry of the need for caution in future investments. But a new channel in this current Australian situation will undermine the basis on which the current broadcasting of domestic content will be viable. This judgement reflects the evidence on the size of the advertising revenue pool and on the elasticity of revenue generated with respect to potential new channels. The predictions based on econometric evidence in a number of countries suggest that viable revenue bases and local programming in the relatively small Australian market will become non-viable under expanded channel numbers.

Information poor and rich

The new wave of digital competition via cable, the Internet, datacasting and broadband technologies will profoundly alter the nature of the "information industry" broadly defined, and of which FTA television is but a part. For example, it is accepted that competitive outcomes in the digital age may well give many persons increased access to coverage of some sports and musical events and even increased availability of specialist programs appealing to differing and often small groups. But as the new digital technologies, or narrow casting and interactive techniques, increasingly target individual customers, the broadcasting dollar is increasingly at risk, and "tailored" away. Advertisers may find customers increasingly targeted in narrow groups, with a resulting incapacity to fund broadly valued programming.

By focussing on those able to pay, cable and pay TV can, of course, raise substantial money for some elements of programming currently provided on a FTA basis. But this raises "access" questions – some will find connection fees and charges "per view" a burden.

Another reason for the current restrictions on the number of FTA broadcasters, and for policies restricting the number of digital channels to the year 2007, is that "siphoning" is indeed a major problem. Siphoning the profitable programs (eg key football, tennis and cricket matches, and major concerts) to pay-per-view modes of transmission increases the risk of a move to what has become known as two-class society - the *information rich* and the *information poor*.

While penetration of broadband modems and quality digital transmissions may indeed reach a very high percentage of the population within five to ten years, those restricted to FTA broadcasting will be facing quite limited menus of choice if such a siphoning of revenue occurs. The same argument extends to creation of a new channel.

Financial viability of FTA channels

The current commercial and financial situation facing Channel 7 and other FTA channels is not the direct subject of this Report; that will be addressed elsewhere and in any case reflects a range of commercial and non-commercial decisions and outcomes. The circumstances of the individual FTA channels are different and will no doubt vary in a number of ways in the future. However, the argument briefly summarised above shows there is a common cross-channel element in terms of vulnerable coverage of domestic content, notably sport, drama and other domestic content, in the event of an expansion of channel numbers.

Losing industry expertise

The substantial expertise which has been built up in FTA broadcasting has the capacity over the next ten years, under current policies, to enable very high quality of digital outcomes, not just within FTA digital broadcasting, but across the whole spectrum of new entrants and new inter-active technologies. However, to suddenly abandon current policies on FTA broadcasting and to invite a new broadcaster or a new datacaster who is able to provide television services, would be to undermine this focused expertise and to risk losing key resources.

Numbers and quality

Finally, we note that Australian FTA program quality is generally compared favourably with the United States, where television numbers through cable are very large. In Australia, for example, subsidies to ABC and SBS and restrictions on the number of commercial channels has led to high quality outcomes relative to what many judged likely under a multi-channel cable model. Numbers, it seems, indeed very large numbers, of channels as per US cable television and digital access, are no guarantee of quality.

1. INTRODUCTION

On 4 March 1999, the Commonwealth Government asked the Productivity Commission to conduct a public inquiry into broadcasting legislation as part of the National Competition Policy (NCP) agreements. The Commission was requested to review the following broadcasting acts:

- *Broadcasting Services Act 1992* (BSA), as amended (including the 1998 digital conversion amendments);
- *Broadcasting Services (Transitional Provisions and Consequential Amendments) Act 1992*;
- *Radio Licence Fees Act 1964*, as amended; and
- *Television Licence Fees Act 1964*, as amended.

The Commission is expected to report to the Federal Government by 5 March 2000.

1.1. Divergence, Convergence and Change - the Quest for Excellence and Independence

The free-to-air television industry is experiencing unprecedented changes and challenges, plus new opportunities in the medium term. Similar opportunities and threats are also faced by all the elements of domestic television content; including drama, sports and public affairs, which currently piggy back on FTA, but which in the future face new funding structures. One reason for this growing wave of new competition is that digital signals, carrying information and entertainment programs, can now be transmitted and indeed targeted via the radio spectrum, cable or satellite. The messages, broadly defined, may be viewed, changed, recorded, personalised and printed in a wide range of new forms suited to individuals and interest groups.

While these rapid technological advances are on the one hand generating elements of *convergence* of the different modes of delivery and processing of media, on the other hand, they are also greatly enhancing *competition* for FTA television. As an example, innovations such as broadband technologies, based on cable modems using existing wiring, have a capacity to create extreme competitive pressure based around video quality images via the Internet, and can threaten funding of FTA in the medium term.

The functions of consumer devices such as television sets, telephones, personal computers and CD or DVD players are increasingly inter-twined, creating what is often referred to as multi-media. This competitive convergence is blurring other network industry demarcations, for example, as electricity companies are able to use their transmission wires to provide cable television and telephone services, and as television broadcasters will able to use their spectrum to carry data and other services. As a result, boundaries are under threat in the information, media and entertainment businesses. The

FTA television networks thus face both an exciting and challenging future, with some broadly focused content becoming at risk if the FTA sources are undermined.

The outcomes of these uncertain technologies are many and changing, and both positive and negative. In the long run, the negative outcomes include an *implosion* of funding for FTA programs, but with two-way linkages and new investment, there is scope for the implosion to be turned around.

This inquiry is timely as the FTA television networks, and other radio broadcasters, are in the process of migrating from the existing analog broadcasting system to a digital broadcasting system, just at the time of a veritable explosion of digitally based competition in the information market, broadly defined. The Federation of Australian Commercial Television Stations (FACTS) estimates that the FTA television industry will need to invest around $1 billion dollars in the conversion to digital broadcasting. This investment outlay is in the context of an ever-increasing competitive market environment for present and future advertising revenues, within which it will take many years to recover initial expenditures.

The FTA network's major source of income to sustain this conversion is derived from advertising, and as noted already, this in the context of increasing competition from:

- other FTA commercial TV broadcasters;
- Pay TV operators including Cable and Satellite; and
- the Internet.

While the commercial FTA television broadcaster's advertising revenue base will continue to be eroded by these processes, intra-industry warfare among the commercial FTA networks in terms of program quality and the associated "ratings rivalry" across foreign studios and sports bodies will also increase program prices.

If the conversion to digital is not implemented properly, the future of the FTA television industry may be threatened, as it will not be able to survive in a world where cable TV, satellite TV, Internet services and telephone are all converging into the "bits" business. Given these ultra competitive elements, introduction of a new commercial FTA television broadcaster pre 2007, would run the risk of killing the goose that lays the golden egg of local cultural content. There is no evidence to date that many of the unique elements of actual and planned local production currently made feasible by existing arrangements would be sustained in the event of a policy reversal on these matters. Evidence on the extremely competitive US market is also suggestive of the risks of loss of quality domestic content with a shift to a more competitive market.

1.2. Outline of the Report

The outline of this Report is as follows. Chapter 2 examines the nature of the broadcasting commodity and introduces the major players in the television broadcasting industry. Chapter 3 examines the effect of the evolution of technology such as cable TV, satellite TV and the Internet on the current FTA arrangements (Model A). Chapter 4 assesses the costs and benefits of the introduction of a new channel or competitor into the FTA television industry (Model B). Chapter 5 analyses the costs and benefits of free entry: unrestricted numbers of FTA, Cable and Satellite, and datacasters (Model C). Chapter 5 examines the impact of the digital television on commercial FTA television operators' advertising revenues.

2. THE BROADCASTING INDUSTRY

2.1. The "Information" Commodity

Information goods such as broadcasting, newspapers and Internet services have distinctive characteristics that are quite different from material goods. The definition of a broadcasting commodity is likely to vary according to the broadcaster, program producer and the viewer. A program producer may see the individual program as the commodity, while a broadcaster may see the commodity as the entirety of scheduling over a season and beyond (Collins, Garnham and Locksley (1988, p.6)). The viewer may see the commodity, in the case of television, as an informative or entertaining program that is being broadcast on the television. The broadcasting commodity, however, shares common economic characteristics with other intellectual property or cultural products, such as a book, a newspaper or a computer program. The broadcasting commodity has intangibility and novelty characteristics, and public good characteristics, which have implications on how the market for broadcasting services is organised.

INTANGIBILITY AND NOVELTY CHARACTERISTICS

A cultural or intellectual property product has intangibility and novelty characteristics. The cultural good is intangible as it is not destroyed in the process of consumption, and in the case of television, it is the entertainment or information content that provides value or utility to the consumer. The cultural good is also a novelty, for instance, people rush to purchase the latest software by Microsoft as they derive value from a new and novel product. Similarly, viewers derive value from watching a television program such as the *News* or a new episode of a drama series due to its novel nature. The product life of a novel product tends to be shorter than that of material goods, for instance, once the consumer has watched this week's episode of a drama series, he/she will desire to watch the next episode. Therefore, rapid product innovation is a central condition of existence for cultural goods. Garnham and Locksley (1991, p.11-12) note that:

> *Because a high proportion of the production costs of cultural industries is necessarily devoted to R and D, each new production involves launching on the market a new product for which demand is necessarily very uncertain…. Thus each individual product is a very high risk investment.*

PUBLIC GOOD CHARACTERISTICS

A broadcasting commodity has public good characteristics (Albon and Papandrea (1998), Bureau of Transport and Communications Economics (BTCE) (1993), Owen and Wildman (1992), Garnham and Locksley (1991), and Collins, Garnham and Locksley (1988)). That is, one viewer's consumption of a broadcasting service such as a television program does not reduce the quantity available to other viewers (non-rivalry); viewers cannot be excluded from watching the television program (non-exclusion); and the cost of production is independent of the number of people who consume it. In addition, the marginal cost of reaching an extra viewer is zero.

Economic efficiency requires price to be equated with the marginal cost of production, in this case, economic efficiency requires free access to the broadcasting commodity. Naturally, a private broadcaster would only provide broadcasting services if it were able to recover its costs either directly from the consumers or indirectly from other sources. As the broadcasting commodity is a public good, the market mechanism fails to work properly because a private, deregulated, competitive market will not provide the optimal amount of the public good for the society. There may be over provision (Thompson (1969)), under provision (Oakland (1974)), and optimal provision (Auster (1977) and Demsetz (1970)). Therefore, private production of a public good sometimes requires the Government to intervene in an attempt to ensure the proper supply of the public good, such as FTA television broadcasting.

2.2. Players in the Television Broadcasting Industry

The current structure of the television industry in Australia is very much influenced by the *Broadcasting Services Act 1992*. The sector is subject to regulation over its structure, ownership, finance, content, behaviour and performance. This section introduces the major participants in the television broadcasting industry.

NETWORKS AND STATIONS

Television networks act as intermediaries for local stations, advertisers and program producers. In Australia there are five major commercial television networks: the Seven Network Ltd; the Ten Network Group Ltd; the Nine Network Ltd; the Prime Network; and TWT Holdings Ltd. Commercial television networks comprise owned and operated (O & O) stations and independently-owned affiliated stations that deliver television programs and advertisements to the consumers. There are 47 commercial television stations operating in Australia. In addition to the commercial television stations, there are two publicly funded national television stations: the ABC and SBS television services. Under current broadcasting legislation, no person may own more than one commercial television station in the same television market, and multiple stations under a network may not have a total reach of more than 75 percent of the Australian population. Table 1 illustrates the audience reach of the major commercial stations that are owned by the five key commercial networks.

Table 1: Major Commercial Networks and Stations

Networks	Stations Owned	Audience Reach (% of the Australian Population)
Seven Network Ltd	5 metropolitan (Sydney, Melbourne, Brisbane, Perth and Adelaide). 1 regional (Queensland).	71.4
The Ten Group Ltd	5 metropolitan (Sydney, Melbourne, Brisbane, Perth and Adelaide).	64.6
Nine Network Ltd	3 metropolitan (Sydney, Melbourne and Brisbane). 1 regional (Darwin).	51.2
Prime Network	8 regional (NSW/ACT, Victoria and Western Australia).	25.0
TWT Holdings	5 regional (NSW/ACT, Victoria, Queensland and Tasmania).	22.7

Source: Communications Update (1998).

VIEWERS

There are 4.5 million households in the Australian metropolitan television market, and the average household has 2.6 people and 1.8 television sets (ACNielsen (1998a)). There are about 2.2 million households in the regional television market, and the average household has 2.5 people and 1.7 television sets (ACNielsen (1998a)).

For most Australians, television is the main source of news and information, and entertainment. People in the metropolitan areas spend three hours and thirteen minutes a day (slightly more in regional areas) watching television. While average daily viewing time for older people (55 years or more) is four hours and twenty-five minutes (ACNielsen (1998a, b)).

ADVERTISERS

Advertisers seek to communicate their messages to potential purchasers with particular demographic characteristics (age, sex, income and education) in areas that correspond to their markets. Television is one of several media by which the advertisers can deliver their messages.

There are two distinct television advertising markets in Australia: national and non-national. In the national advertising market, advertisers seek to reach the entire national audience, and have a choice among television, newspaper or magazines. Non-national advertising generally refers to classified advertisements.

Table 2 presents the latest advertising expenditure and shares of national and non-national advertising expenditure for the main media: television; radio; newspapers; and magazines.

Table 2: Advertising Expenditure in Main Media in Australia

	National	Non-national	Share of National	Share of Non-national	Share of Total
Television	2,101,034	298,488	52.97	7.39	29.97
Radio	275,618	281,168	6.95	6.96	6.96
Newspaper	828,134	2,183,369	20.88	54.06	37.62
Magazines	445,358	77,900	11.23	1.93	6.54

Source: CEASA (1999).

COMPETITORS

The television industry competes for advertising with other sources of media such as commercial radio broadcasting, newspapers, magazines, Pay TV and the Internet. Each of these media offers particular advantages to the advertisers. However, the emergence of Pay TV and the Internet in Australia has intensified the competition for the advertising dollars.

REGULATORS

The Australian Broadcasting Authority (ABA), an independent federal statutory authority, is responsible for the regulation of the broadcasting industry. The ABA allocates the availability of segments of the broadcasting services bands (AM and FM radio and VHF and UHF television), and the ABA has responsibility for the licensing, programming, and ownership and control of broadcasting services.

The ABA was established by the *Broadcasting Services Act 1992*, and began operations on 5 October 1992. The Act specifies the role of the regulatory authority, gives the ABA a range of powers and functions, and sets out explicit policy objectives. The objectives include: the desirability of program diversity; limits on concentration of ownership and foreign control of the mass media; and the need for media to help foster an Australian cultural identity, report news fairly and respect community standards.

3. MODEL A – CURRENT FTA ARRANGEMENTS AND EVOLUTION OF TECHNOLOGY

At present, there are 47 commercial and 2 public television stations providing FTA television services across Australia. In the metropolitan areas, the major commercial FTA broadcasters are the Seven, Nine, and Ten Networks. These stations generally provide high quality *domestic* drama series, sports, quiz shows, and entertainment and variety programs. Access to these programs is free as long as the consumer has a television set. Terrestrial coverage of FTA television is around 97% of the Australian population, which means that most viewers can access television programs from anywhere in Australia. The current FTA arrangements have served the Australian community well both in terms of community services obligations to regional Australia, and the provision of high quality *domestic* content programs. This chapter examines the dynamics of competition within the present FTA television industry in light of the evolution of technology such as cable TV, satellite TV and the Internet.

3.1. *Current Methods of Funding Broadcasting*

As discussed in Section 2.1, the broadcasting commodity is a public good with zero or close to zero marginal cost of production. Economic efficiency is attained when the price of the broadcasting commodity is set at zero. Clearly, in a competitive market environment, there is no economic incentive for a broadcaster to enter the industry, and the broadcasting commodity is not provided. As a consequence, "market failure" results, and any solution to the funding problem is "second best".

In the Australian FTA television industry, there are three methods of funding television broadcasting: government budget; advertising; and subscription fees or Pay TV (whether per channel or per view). For example, the ABC and SBS are funded from the Federal Government's budget but SBS also obtains some of its revenues from advertising, subject to a percentage stipulated by the Government. Broadcasters that receive a majority of their incomes from advertising and/or Pay TV are known as commercial television operators. Commercial FTA television broadcasters do not charge viewers to watch their programs, and receive a majority of their incomes from advertising, while Pay TV operators obtain their incomes from both subscription fees and advertising. Commercial FTAs use the advertising revenues to fund domestic and overseas programming.

3.2. *Competition for Advertising*

The commercial FTA television industry is in direct competition for the advertising dollars with other sources of media such as radio broadcasting, newspapers, magazines, cable TV and the Internet. McCombs and Nolan (1992) shows that the addition of new media does not result in increased spending on advertising but in a re-allocation of the existing expenditures among the media. Table 3 show that television's share of total advertising expenditure in Australia has been declining over the years, from 35.8% in 1993 to 34% in 1998.

Table 3: Tends in Advertising Expenditure by Media (percentage of each year's total)

	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %
Newspapers	41.0	42.5	43.3	41.6	41.8	42.7
Magazines	5.5	6.3	6.2	6.7	6.9	7.4
Television	35.8	34.5	34.2	35.0	34.2	34.0
Radio	9.0	8.8	8.6	8.8	8.2	7.9

Source: CEASA (1999)

3.3. Evolution of Technology and Its Impact

With the diffusion of new communications technologies, the emergence of Pay TV and the Internet, competition for the advertising dollars has become intense and uncertain. This will significantly impact on the commercial FTA television broadcasters' financial positions, and hence their ability to provide high quality *domestic* content programs, and the implementation of digital television.

COMPETITION FROM PAY TV

Pay TV commenced operation in Australia in 1995. Section 16 of the BSA defines subscription television broadcasting as a service providing programs that appeal to the general public and are available only on the payment of subscription fees.

In Australia, Foxtel and Optus Vision are the two major cable TV operators. Foxtel's cable coverage is available to around 2.5 million homes in the metropolitan and regional areas, while Optus Vision's cable coverage is available to over 2 million homes in the metropolitan areas. Table 4 presents the major Pay TV operators in Australia.

Table 4: Major Pay TV Services Operating in Australia

Pay TV Operator	Subscriber Numbers	Service Areas	Delivery System	Owners
PBL	450,000	Metropolitan areas (except Hobart), regional NSW, Vic and Qld	Cable, Satellite	Telstra; News Limited
Optus Vision	210,000	Sydney, Melbourne, Brisbane and Adelaide	Cable	Optus Communications
Austar	330,000	Regional NSW, Vic, Qld, SA and NT, Newcastle, Wollongong, Hobart and Darwin	Satellite, Microwave	United International Holdings

Source: Pay TV news (1998) and The Australian Financial Review (3/7/99)

Pay TV competes with FTA television for programming, viewership and advertising. In the US, Bates (1991, p.47) notes that "among the clear consequences has been the decline in the major networks' audience shares in recent years. Cable has also added competition for national and local advertising revenues". Bates (1993) finds that cable TV is a substitute for local television, and the former FCC Chairman, Alfred Sikes, remarked that "Broadcasting has been eclipsed by cable" ("Sikes Looks", 1991, p.23).

The Pay TV industry in Australia is still in an infant stage of development, however, Pay TV has already penetrated 14% of the Australian households, and has already attracted $25 million in advertising revenue.[1] Pay TV is more attractive for larger households, which are more likely to have children. Pay TV penetration is around 25% of four-person households and 27% of households with five or more people. Children's channels are the great success story for Pay TV advertising. The viewer profile of children's programs precisely fits the target audience for those who want to advertise children's products. Children with Pay TV are a lucrative market, as 22% of Cartoon Network viewers have shopped for toys in the past months, compared to the Australian average of 12% ("Pay TV", *Ad News* (4/6/1999)).

At present, Pay TV's share of the total television advertising is 1%, and some media experts in the industry have predicted that this share will rise to 7% over time. With a declining television's share of total advertising expenditure (Table 3), a rise in advertising revenue for Pay TV will be at the expense of the commercial FTA television broadcasters' advertising revenues. This will affect their operations, and may affect their capacity to provide high quality *domestic* content programs.[2]

[1] "Pay TV ratings no threat to the majors", *The Australian Financial Review*, 3/7/99.

[2] Ise and Perloff (1997) find that as the number of subscriptions to cable TV raises, the network owned and operated stations' profits fall in the US for the periods 1952 to 1980.

Growth of Pay TV

Table 5 presents forecast of Pay TV subscribers in Australia.

Table 5: Projections of Subscriber Numbers ('000)

Years	*2000-01*	*2000-02*	*2002-03*	*2003-04*	*2004-05*
Low	1400	1700	1900	2160	2330
Medium	1950	2190	2390	2580	2700
High	2200	2600	3000	3300	3750

Notes: Low assumes a penetration of 30%; Medium assumes penetration of 35%, and High assumes a penetration of 50%.
Source: BTCE (1997).

In the UK, Shurmer (1997) estimates that 35-40% of television households will subscribe to Pay TV by 2005, compared to the 1996 penetration rate of 22% (or 5.1 million subscribers to Pay TV).

COMPETITION FROM VIDEO TECHNOLOGY

The video cassette recorder (VCR) revolution has given consumers choice to view television programs at their convenience. Consumers can now tape delay FTA programs for more convenience viewing or hire videocassettes of recent release of movies, children's drama, or even adult themes.

Commercial FTA television broadcasters also face strong competition from VCR, and new video technology such as VCD and DVD. For example, in the US, more than two-thirds of all households with a television set own a video cassette recorder, and VCR viewing now accounts for a large proportion of television viewing. Penetration of the VCR in the US reached 30% in the first eight years on the mass market.

COMPETITION FROM THE INTERNET

One of the biggest threats to the commercial FTA television's advertising revenue base is from the emerging and growing Internet market. The penetration of the Internet into the Australian homes is occurring at a staggering rate. A recent report by the Australian Bureau of Statistics[3] found that as of February 1999, over 18% of all households (1.3 million) had home Internet access, an increase of 423,000 or 50% over the previous year's estimate. At the same time, the number of households with a home computer increased by 287,000 or 10% since February 1998 to reach 3.2 million. This indicates that around a third of the households acquiring home Internet access since February 1998 already had a home computer.

[3] ABS (1999), Use of the Internet by Households, Australia.

Frequency of Internet Access

The ABS reports that almost 90% of Internet households (1.3 million households) accessed the Internet frequently from home (once a week or more), 40% accessed the Internet daily, 38% accessed it two to six times a week, and 10% once a week.

The ABS estimated that 37% of the total adult population (5 million adults) accessed the Internet over the 12 months from February 1998 to February 1999, a 66% increase form the previous 12 months from February 1997 to February 1998. Of the 1.7 million adults who accessed the Internet from home in the 12 months to February 1999: 30% accessed the Internet daily; 38% accessed it two to six times a week; and 18% once a week. Of the 2.5 million adults who accessed the Internet from work in the 12 months to February 1999: 39% accessed the Internet daily; 17% accessed it two to six times a week; and 12% once a week. Of the 2.8 million adults who accessed the Internet from other sites in the 12 months to February 1999; 2% accessed the Internet daily; 14% accessed it two to six times a week; and 10% once a week.

Electronic Commercial Activities

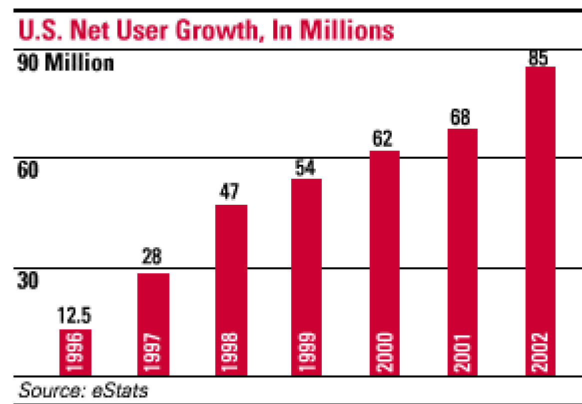
The ABS found that nearly 4% of Australian adults (480,000 adults) used the Internet to purchase or order goods or services for their own private use in the 12 months to February 1999, a 132% increase from the previous 12 months to February 1998. These Internet shoppers made an estimated 1.9 million purchases via the Internet and nearly 77% of Internet shoppers paid for their purchases online.

The types of goods and services purchased via the Internet included: books or magazines (41% of Internet shoppers); computer software or equipment (40%); music (20%); clothing and shoes (11%); holidays (8%); purchasing tickets to entertainment (6%); and sporting equipment (2%).

Internet Penetration in the US

At present, there are 47 million Internet users in the United States, a 67% increase from the previous year. In the next few years, the number of Internet users in the United States will nearly double to 85 million by the year 2002 (Figure 1). Over that same period, revenues from electronic commerce will mushroom from US$20 billion to nearly US$300 billion and web advertising will grow significantly.

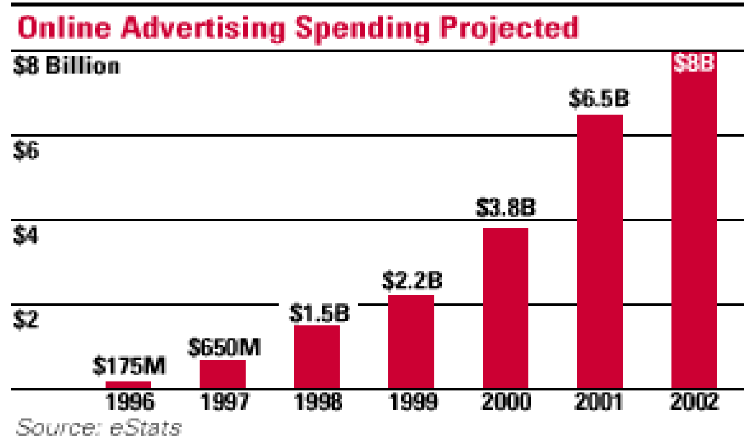
Figure 1: U.S. Net User Growth, In Millions



Internet and Advertising

In the US, advertisers spend US$1.5 billion dollars in advertising on the Internet in 1998, a 130% increase from the previous year's expenditure. Advertising expenditure on the Internet in the US is expected to reach US$8.9 billion dollars in the year 2002 (Figure 2).

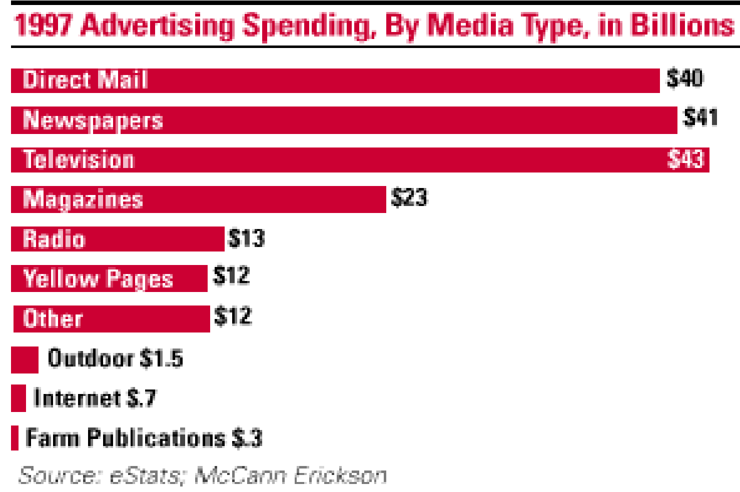
Figure 2: Online Advertising Spending Projected



In percentage terms, online advertising dollars represent less than half of one percent of total ad dollars spent. Figure 3 compares online advertising spending with traditional advertising media. Advertising on the Internet is expected to reach US$8 billion in 2002, which will account for 3.7% of total advertising expenditure. Advertising expenditure on traditional media is expected to top US$215 billion (emarketer).[4]

[4] (http://www.emarketer.com/estats/ad_rev_persp.html).

Figure 3: 1997 Advertising Spending, By Media Type, in Billions



Commercial FTA television services will also compete with new Internet products such as pay-per-view, and with Internet broadcasting services. Internet broadcasters such as IPNetTV in Australia and Internet Broadcast Centre in the US are beginning to experiment with Internet broadcasting services. Again, competition from the Internet and Pay TV will clearly eat into the declining television share of total advertising (see Table 3).

3.4. Intra-Industry Competition – Its Impact

Due mainly to the peculiar characteristics of the broadcasting commodity, the nature of competition in the industry is highly unusual. Commercial FTA television broadcasters do not compete on price, they, however, engage in non-price competition. Non-price competition usually takes the form of competition in program quality and diversity, which are highly costly and risky.

NON-PRICE COMPETITION AND THE IMPACT ON COSTS

The broadcasting commodity is itself a weapon for competition. Television broadcasters usually compete on quality and originality of programs, rights to broadcast sporting and entertainment events, and program acquisition, which place upward pressure on costs (Litman (1979, 1983 and 1993), (Atkin and Litman (1986), and Garnham and Locksley (1991)).

Costs and Network Competition: Two Examples

For example, two networks: 1 and 2 are competing to gain a larger slice of the aggregate television advertising revenue. In order to achieve this, the networks must increase their shares of the aggregate television audience, they must provide high quality television programs so as to attract viewers. Let's assume that high quality programs usually involve high cost of production, while low quality programs are associated with low cost

of production. The costs and revenues, and profits for Networks 1 and 2, associated with network rivalry are summarised in Table 6.

Table 6: Pay-off Matrix 1

		Network 2	
		Low quality	**High quality**
Network 1	**Low quality**	A 50, 50 C 25, 25 π 25, 25	A 0, 100 C 25, 50 π -25, 50
	High quality	A 100, 0 C 50, 25 π 50, -25	A 50, 50 C 50, 50 π 0, 0

If Network 2 selects the low quality strategy while Network 1 chooses the high quality strategy, then:

- Network 2 has zero advertising revenue, costs of 50 and profits of –25;
- Network 1 has advertising revenue of 100, costs of 50, and profits of 50.[5]

If this is the case, Network 2 will not select the low quality strategy but instead choose the high quality strategy, and the outcome of the rival game is as follows:

- Both Networks 1 and 2 earn advertising revenue of 50 each, incur costs of 50 each, and earn zero profit.

The best outcome from both networks' point of view is to collude and select the low quality strategy, however, this is anti-competitive and they will immediately receive a writ from the Australian Competition and Consumers Commission for collusion.

Now suppose that advertising revenue is dependent on the quality of the programs. Low quality programs will not attract as many viewers as high quality programs, and hence, will not generate as much advertising revenue as high quality programs. In this scenario, the profit generated from a high quality strategy may be greater than the profit generated from a low quality strategy (see Table 7).

[5] The same reasoning follows if Network 1 plays the low quality strategy and Network 2 plays the high quality strategy.

Table 7: Pay-off Matrix 2

		Network 2	
		Low Cost	**High Cost**
Network 1	**Low Cost**	A 40, 40 C 25, 25 π 15, 15	A 50, 100 C 25, 50 π 25, 50
	High Cost	A 100, 50 C 50, 25 π 50, 25	A 100, 100 C 50, 50 π 50, 50

If Network 2 selects the low cost strategy while Network 1 chooses the high cost strategy, then:

- Network 2 has 50 advertising revenue, costs of 25 and profits of 25;
- Network 1 has advertising revenue of 100, costs of 50, and profits of 50.[6]

If this is the case, Network 2 will not select the low cost strategy but instead choose the high cost strategy, and the outcome of the rival game is as follows:

- Both Networks 1 and 2 earn advertising revenue of 100 each, incur costs of 50 each, and earn profit of 50.

In this case, the best outcome from both networks' point of view is to select the high cost strategy. Therefore, in the 2 cases above, the dominant strategy for both networks is to select the high cost strategy, and hence this raises the costs of broadcasting.

Program Quality and Original Programs

As discussed in Section 2.1, a broadcasting commodity has intangible and novel characteristics with a very short product life. Television viewers have a great appetite for high quality and original programs, which are normally expensive and costly to produce and involve large investment in research and development (R&D). Each new television program such as a new drama, comedy, current affairs, entertainment and information, and quiz show is a prototype, and the demand for the new broadcasting product is uncertain. Therefore, each individual broadcasting product is a very high-risk investment.

[6] The same reasoning follows if Network 1 plays the low strategy and Network 2 plays the high strategy.

In 1997/98, the 47 commercial licensees in Australia generated $2,755 million in revenue, with $2,279 million going to expenses. This produced a profit of $476.6 million, a 6.9% increase over the previous year. Expenditure on domestic programming accounted for one-quarter of total industry expenses. That is, commercial television licensees spent a total of $566.3 million on local programming in 1997/98. Of this, $105.3 million was spent on Australian drama and children's programming; $105.3 million on news and current affairs; $153.5 million on sports; $127.2 million on light entertainment; and $18.7 million on documentaries.

Rights to Broadcast Programs

Competition among commercial television broadcasters has pushed up the prices of rights to broadcast sporting events such as the football, car and horse racing, Commonwealth Games, Olympic Games, music concerts, etc. For example, in the UK, the BBC paid £73 million for four years of delayed highlights of FA Premiership soccer matches in 1996, whereas it paid just £4.5 million for similar rights in 1992.

Program Acquisition

Competition among commercial television networks has also pushed up the costs of acquiring programs as networks bid up the prices of these programs.

In 1997-98 expenditure on overseas programming by commercial television networks was $234.8 million, or 29.3% of total program expenditure of $801.1 million. This represents a 9.3% increase over the previous year's expenditure of $214.9 million. Of the amount spent on overseas programming, 92.7% or 217.6 million was spent on drama, including telemovies and television series.

Australian Content and Children Programming's Requirements

Australian content and children drama programming are the most expensive to produce and these programs cannot be recovered from local sales due to the small size of the Australian television market. Table 8 presents commercial television expenditure on Australian programming.[7]

[7] These figures do not take into account expenditure on Australian programming by regional licensees in the form of affiliation fees to networks.

Table 8: Commercial TV Expenditure on Australian Programming

	1996-97 ($m)	1997-98 ($m)	Annual % growth (decline)
Australian drama & children's programming	91.8	105.3	14.7
News and current affairs	155.1	161.6	4.1
Sports	149.7	153.5	2.5
Light entertainment	131.1	127.2	(3.0)
Documentaries	21.8	18.7	(14.2)
Total	549.5	566.3	3.0

Source: ABA News Release 23/1999 "TV Profits up 6.9 percent; radio up 26.8 percent in 1997-98".

In 1997-98, the Seven Network and its affiliates spent a total of $268.2 million on Australian programming, representing a 2.9% increase from the pervious year's amount of $260.7 million. The Nine Network and its affiliates spent a total of $195.6 million on Australian programming in 1997-98, representing a 3.1% decrease from the previous year's amount of $201.9 million. The Ten Network and its affiliates spent a total of $78.9 million on Australian programming in 1997-98, representing a 2.8% decrease from the pervious year's amount of $81.2 million.

In Summary

As illustrated above, competition for the advertising dollars among the commercial TV operators has significantly pushed up the Networks' costs as they compete to provide quality and originality of programs, to secure rights to broadcast sporting and entertainment events, and to acquire recent release movies and the best of overseas programs. Moreover, the high costs involved in producing Australian content and children programs have contributed to the substantial increase in their costs.

4. MODEL B – ONE NEW COMMERCIAL FTA CHANNEL

An alternative model to the current FTA arrangements is to introduce a new commercial broadcaster into the FTA industry. What impact will this have on the quality of domestic content programs? What impact will this have on the provision of high quality programs to regional Australia? The chapter examines the costs and benefits of this alternative model, including costs of implementing digital television.

4.1. Costs and Benefits of a New Channel

A new channel will definitely give consumers more choice in terms of channels and programs – though not necessarily high quality domestic content programs. There may also be increased diversity in programs and some new domestic and overseas content, as the new entrant may differentiate itself from the existing channels. Advertisers will benefit, as competition among the commercial FTA television operators will drive down the price of advertising. However, in the current situation in regard to advertising revenue and the capacity to fund quality programming, the costs of a new entrant appear to outweigh the benefits.

IMPACT ON ADVERTISING REVENUE AND COSTS

A new entrant into the commercial FTA television industry will reduce each television operator's share of the declining total television advertising dollars (see Table 3). For example, Budd (1985), Cave and Swann (1986) and NERA (1986) conducted econometric studies on television advertising in the UK and found that the demand for advertising was price inelastic and less than one in absolute value. Thus, advertising revenue, for a commercial TV operator, would fall if advertising were extended to the BBC, or to a new commercial TV broadcaster.

In addition, the BTCE (1993) notes that:

> *The entry of additional broadcasters in a particular market will not result in an increase in the supply of advertising units (the composite of audience size and time) unless the audience size increases, or the existing audience increases their consumption of commercial broadcasting programs. If these do not occur, the audience content of each advertising spot declines as the fixed audience is shared among the increased number of broadcasters.*

Furthermore, Hendry (1992) notes that the introduction of a new channel will expand advertising minutes of broadcasting, which will reduce the audience reach for each station without much effect on the price or total advertising home minutes. As a result, advertising revenue for each station will be reduced.

The three major networks: Seven; Nine; and Ten derive a majority of their advertising revenues from the five metropolitan cities: Sydney, Melbourne, Brisbane, Adelaide and Perth. Advertising revenue accounts for approximately 80% to 90% of total sales revenues for commercial television networks.

For instance, suppose that a new commercial FTA television channel was introduced in 1998, Table 9 shows the hypothetical advertising revenues for the four commercial networks, assuming that the new network siphons 10%, 20% and 30% of the television revenue in the metropolitan cities.

Table 9: Network's Advertising Revenue 1998 with a New Entrant

Network	No New Competitor $m	New Competitor 10%	New Competitor 20%	New Competitor 30%
Existing 3 Networks	2039.21*	1835.29	1631.37	1427.45
New	0	203.92	407.84	611.76
Total	2039.21	2039.21	2039.21	2039.21

* Actual figures

A smaller slice of the television advertising cake for each Channel will mean less money to finance domestic drama series, comedy and documentaries. The incapacity to fund domestic content programs could then lead to a "death by a thousand cuts" as these programs are the most expensive to produce and the most discretionary; easy items to be axed.

IMPACT ON COSTS

A new entrant into the commercial FTA television industry will further raise the costs of programming, as broadcasters aggressively bid for the "stars" and the rights to telecast sporting and entertainment events, and to show recent release movies and other programs. Thomas and Litman (1991) conducted a study of the introduction of a fourth broadcasting network, Fox Broadcasting Company, in the US. They commented that the emergence of a fourth network bidding for new programs would increase the pressure on programming costs, as the new network would not want to offer lower quality programs as it competes to attract audiences.

IMPACT ON PROGRAM QUALITY AND ON UNIVERSAL SERVICE OBLIGATIONS

Australian drama, comedy and documentaries are very costly to produce. If there is a new entrant in the commercial FTA television industry, then it may adversely affect the provision of high quality Australian programs. As commercial FTA television broadcasters operate in a market environment, they will produce programs that will generate sufficient revenues to cover the costs of production. A decline in the share of advertising revenue per network and a rise in the costs of programming from the increased competition may lead to substitution of low cost and low quality programs.

The evidence from UK and Australian models of public and private broadcasting suggest that there is rather more innovation and production of quality shows than occurs under cable television, with its introduction of a large number of new channels. Each new channel has a tendency to search for the largest market, and to imitate the other, often with a tendency to convergence on the lowest common denominator.

In addition, there may also be some scale back in programming in regional Australia as the profit margin for each commercial FTA station is squeezed as a result of the new entrant. As a consequence, there may be a large number of low cost and low quality commercial stations in the large capital cities and with new pressure for the rest of the country to become the subsidised domain of the public broadcaster(s).

SUSTAINABILITY 4 COMMERCIAL TELEVISION BROADCASTERS

Given the current size of the population and the demand for broadcasting, the commercial television industry may not be able to support four commercial TV operators. In other words, an oligopolistic market structure of four commercial FTA television operators may not be sustainable, and social welfare loss may result if entry is permitted (See Baumol, Panzar and Willig (1982)).

4.2. Impact on the Network's Implementation of Digital Television

COSTS OF TRANSITION TO DIGITAL TV

The costs of converting the current analog broadcasting system to digital are substantial. FACTS estimates that it will cost the television industry around $1 billion dollars to fully convert to digital broadcasting.

Wired News reports that the minimum investment will only allow stations to broadcast network, not local, digital content. To produce original content, a broadcaster will have to spend between US$5 million and US$10 million to put together a full complement of equipment: digital cameras, editing machines, and playback machines. Moreover, digital studios will have to be built from the ground up. The basics include a new antenna and digital transmitters, which can cost US$1 million (Wired News (7/9/98)).[8]

As an example of the critical mass of funding required for quality programming, the Seven Network estimates that it will cost around $100 million to digitise the broadcasting part of its business, and $300 million to digitise the whole network. There will also be additional costs of acquiring and providing HDTV programming. The commercial television stations also bear the full cost of maintaining the existing system and providing programs for the new system during the simulcast period.

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[8] Kisti Coale, "One Big Beta" (http://www.wired.com/news/news/digital_tv).

5. MODEL C – FREE ENTRY: FULL COMPETITION

We have examined the evolution effect of technology on the current FTA arrangements (Chapter 3), and we have assessed the costs and benefits of the alternative model with a new entrant (Chapter 4). Now we explore the impact of allowing free entry into the FTA television industry, at a time when the FTA broadcasters are in the process of migrating from analog to digital broadcasting. Free entry means:

- no restrictions in the number of commercial FTA television broadcasters;
- no restrictions in the number of cable and satellite TV operators;
- no restrictions in the number of datacasters; and
- no restrictions in the provision of broadcast services on the Internet.

In other words, we have a full-blown competitive model in the information and media market. The impact of such a model is many and varied, and this chapter addresses such issues.

5.1. Costs and Benefits of Full Competition

5.1.1. Benefits of Full Competition

Before policy makers decide on a particular model for the FTA television industry, the costs and benefits associated with such a model need to be assessed. This section examines the benefits of free entry, while the next section will consider the costs.

Full competition is to 'let the market do what it does best' – to sort out the information rich from the information poor, the strong operators from the weak operators, and good products from bad products. Full competition means a proliferation of choice, that is, there will be hundreds of channels provided by FTA operators, cable and satellite TV operators, datacasters and Internet broadcasters, and perhaps even telecommunications carriers and electricity companies. More channels also mean more program choice and increasing diversity in programs for the consumers, where the new paradigm can cater for all tastes and can cater for each individual's demand. There will also be a saturation of overseas content – from the US, Canada, Europe and Asia. Moreover, there may also be the possibilities of interactive television. It appears that consumers and new operators such as datacasters would be the biggest winners from full competition. The question is would the community benefit from a free entry model?

5.1.2. Costs of Full Competition

LOSS OF ADVERTISING REVENUE AND DOMESTIC CONTENT

As mentioned in the previous chapters, new competitors will gradually erode the commercial FTA operators' advertising revenue base to a point where some commercial FTA operators may not be able to survive without charging viewers for television programs. In addition, Pay TV operators will cream-skim or siphon off the most profitable programs such as sports and other high ratings programs from commercial FTA television.

Naturally, an erosion in the commercial FTA television's advertising revenue base will mean axing of *local* content programs, such as local news and current affairs; sports; quality Australian drama; local quiz; and entertainment and information, as these programs are the most expensive to produce. More importantly, the development and maintenance of the Australian culture will be at risk.

Advertising revenue has enabled the commercial FTA television to investment in quality local products and to develop the transmission infrastructure necessary to cater for people in metropolitan and regional areas. Erosion in commercial FTA television's advertising revenue base may mean that broadcasters off-load the unprofitable parts of their businesses, which usually means a winding down of transmission to regional areas.

NUMBERS AND QUALITY

Program quality in the United States, where television numbers through cable are very large, is generally compared unfavourably with Australia and the UK. In Australia, for example, subsidies to ABC and SBS and restrictions on the number of commercial channels has led to high quality outcomes relative to what many judged likely under a multi-channel cable model. Numbers, it seems, indeed very large numbers, of channels as per US cable television, are no guarantee of quality.

ISSUES OF ACCESS

Uneven access to new digital technologies could mean that under the new digital world there would be increased access to information for some, but reduced access for others. This could occur because of the incapacity under the unconstrained competition model to provide free FTA broadcasting and the content that goes with it. There would seem to be an economic and distributional case for moderating the speed with which we phase out one system in favour of another. This will be the case if some in the community depend far more than others on the content provided on the FTA system, both now and in the medium term future.

INFORMATION POOR AND RICH

The new wave of digital competition via cable, the Internet, datacasting and broadband technologies will profoundly alter the nature of the "information industry" broadly defined, and of which FTA television is but a part. For example, it is accepted that

competitive outcomes in the digital age may well give many persons increased access to coverage of some sports and musical events and even increased availability of specialist programs appealing to differing and often small groups. But as the new digital technologies, or narrowcasting and interactive techniques, increasingly target individual customers, the broadcasting dollar is progressively more at risk, and "tailored" away. Advertisers may find customers increasingly targeted in narrow groups, with a resulting incapacity to fund broadly valued programming.

By focussing on those able to pay, cable and pay TV can, of course, raise substantial money for some elements of programming currently provided on a FTA basis. But this raises access questions – some will find connection fees and charges "per view" a burden. In addition, siphoning the profitable programs (eg key football, tennis and cricket matches) to pay-per-view modes of transmission increases the risk of a move to what has become known as a two-class society - the *information rich* and the *information poor*.

While penetration of broadband modems and quality digital transmissions may indeed reach a very high percentage of the population within five to ten years, those restricted to FTA broadcasting will be facing quite limited menus of choice if such a siphoning of revenue occurs.

Losing Industry Expertise

The substantial expertise which has been built up in FTA broadcasting has the capacity over the next ten years, under current policies, to enable a very high quality of digital outcomes, not just within FTA digital broadcasting, but across the whole spectrum of new entrants and new inter-active technologies. However, to suddenly abandon current policies on FTA broadcasting and to invite a new broadcaster or a new datacaster who is able to provide television services, would be to undermine this focused expertise and to risk losing key resources.

Put at Risk the Roll-out of Digital TV

The erosion of the revenue base will also put at risk the implementation of digital television. It can be reasonably argued that if the conversion to digital broadcasting is not implemented properly, broadcasters will not have the necessary infrastructure to embrace competition from telephone companies, Pay TV operators, datacasters and Internet providers as media converge in the digital age. In other words, we don't want to throw the baby out with the bath water.

In Summary

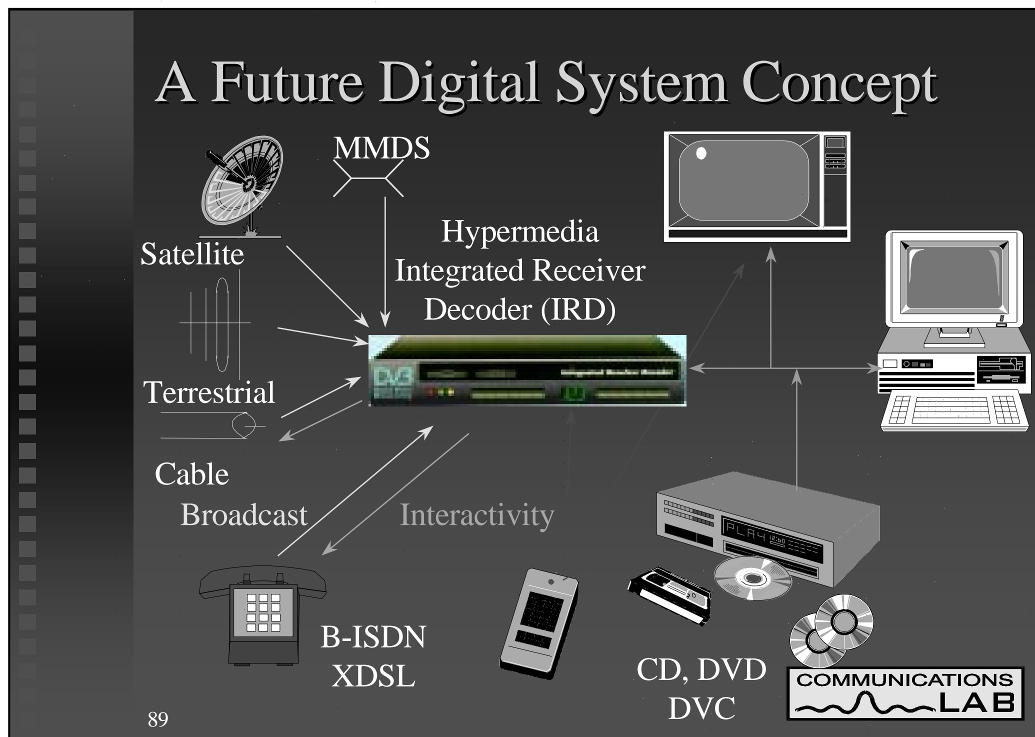
One policy challenge in relation to broadcasting, datacasting and digital information issues generally is, we argue, to sustain or enhance the excellence of current broadcasting while simultaneously facilitating the evolution of best practice use of emerging data and information technologies. Exactly how the new technologies will unfold is a matter of considerable uncertainty. But by securing the FTA advertising market through existing channels, a vital element of certainty will be retained, thereby reducing the risk of loss of access to a wide range of domestic content currently financed by FTA broadcasting.

5.2. *Future Market Structure of Australian FTA Industry*

Once the broadcasting industry has successfully converted to digital broadcasting, the Australian communications and media industries will engage in "open sky" warfare as different transmission systems converge and are able to carry digital services. The convergence of the three delivery systems: digital terrestrial, digital satellite and digital cable are presented in Figure 5, Figure 6 and Figure 7.

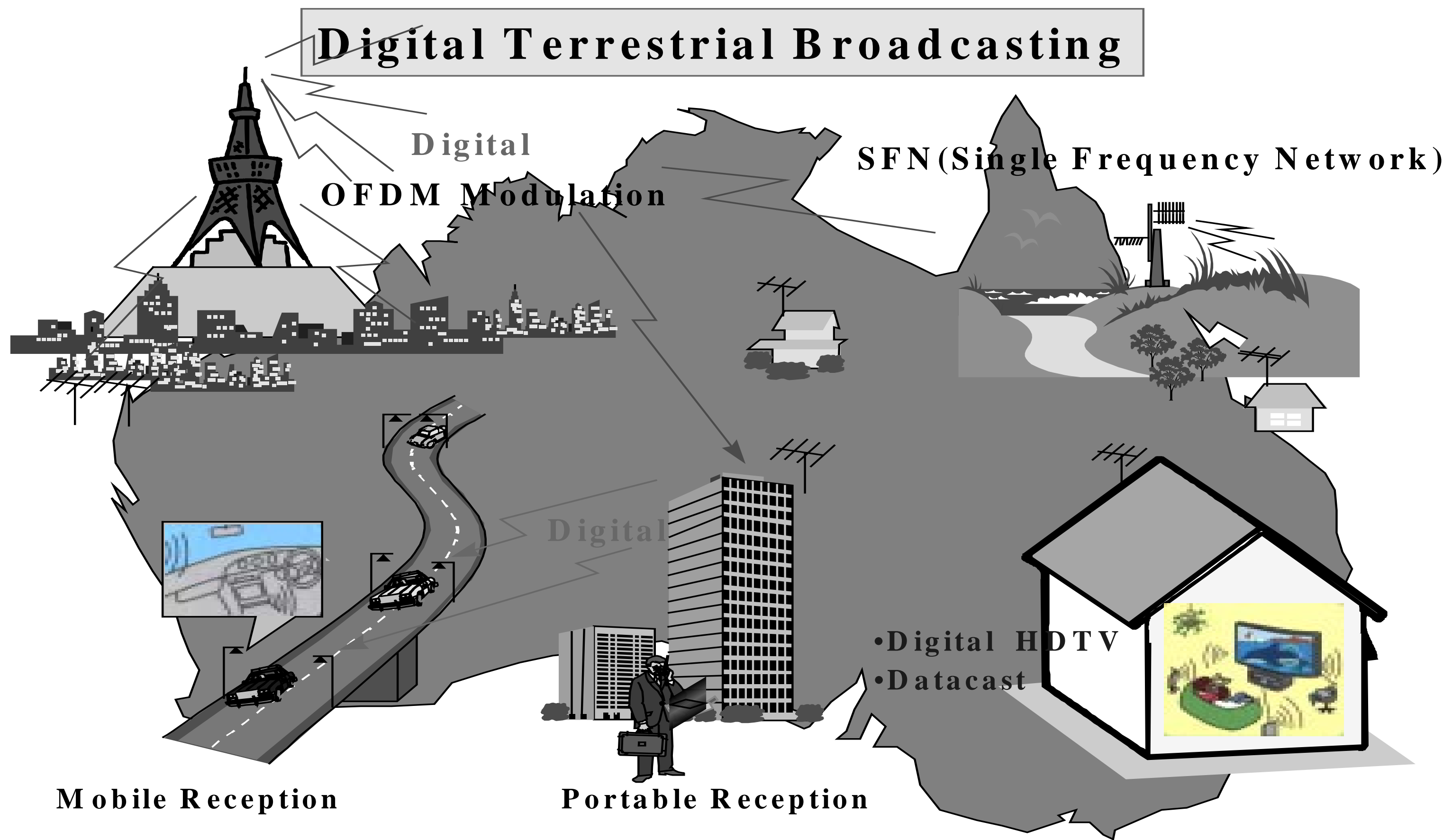
In addition, the functions of consumer devices such as television sets, telephones, personal computers and CD or DVD players will all be inter-twined, as illustrated in Figure 4. Broadcasting, telephone and cable are all converging into the "bit business", that is, they will be in the business of moving digital information, or bits, from place to place. Depending on the consumer's requirements, he/she will pick the broadcast, cable, telephone or some combinations of these platforms to conduct his/her business, to provide entertainment and to inform himself/herself at home.

Figure 4: Integrated Services



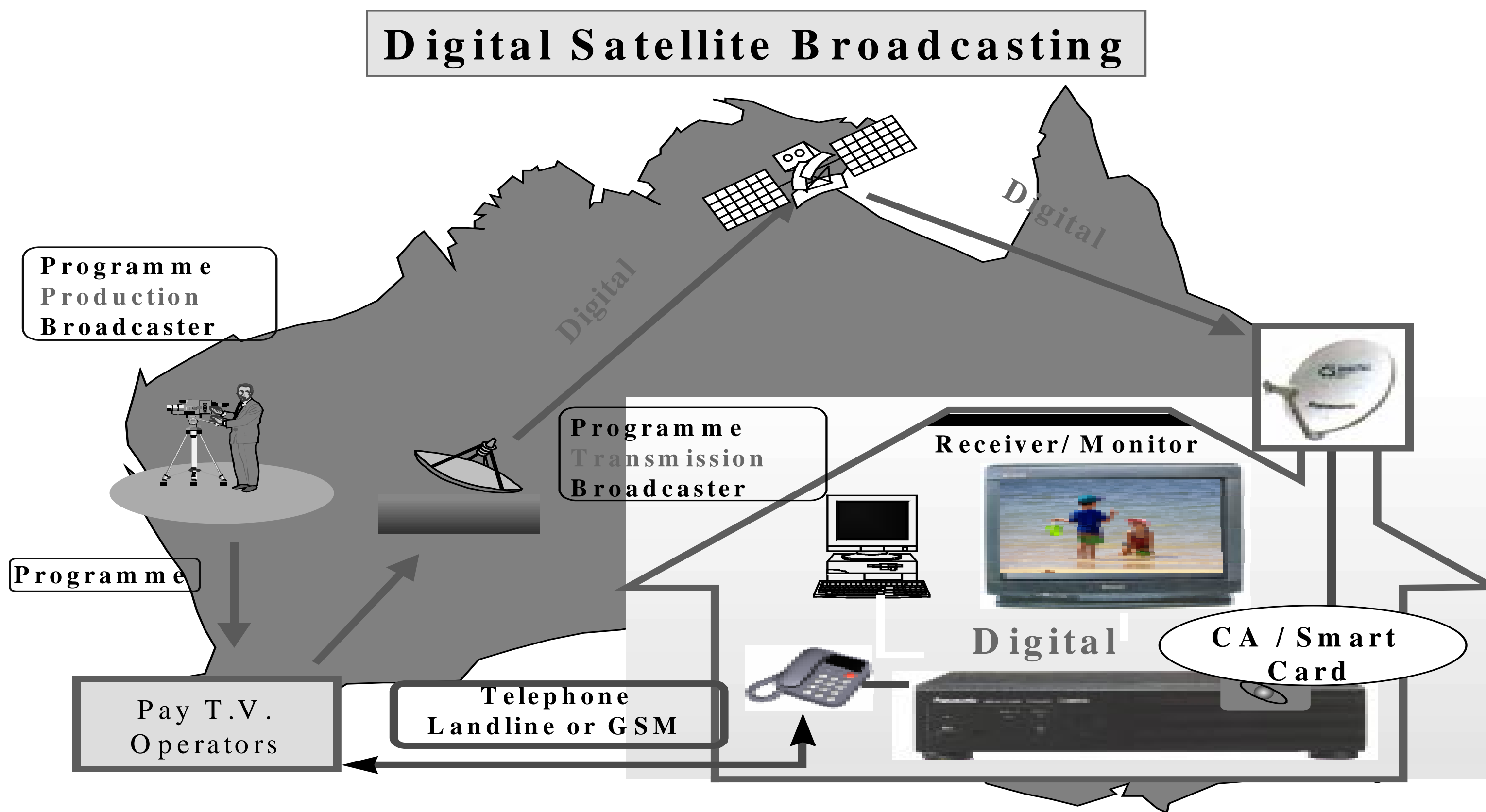
Source: Pickford (1997)

Figure 5: Digital Terrestrial Broadcasting



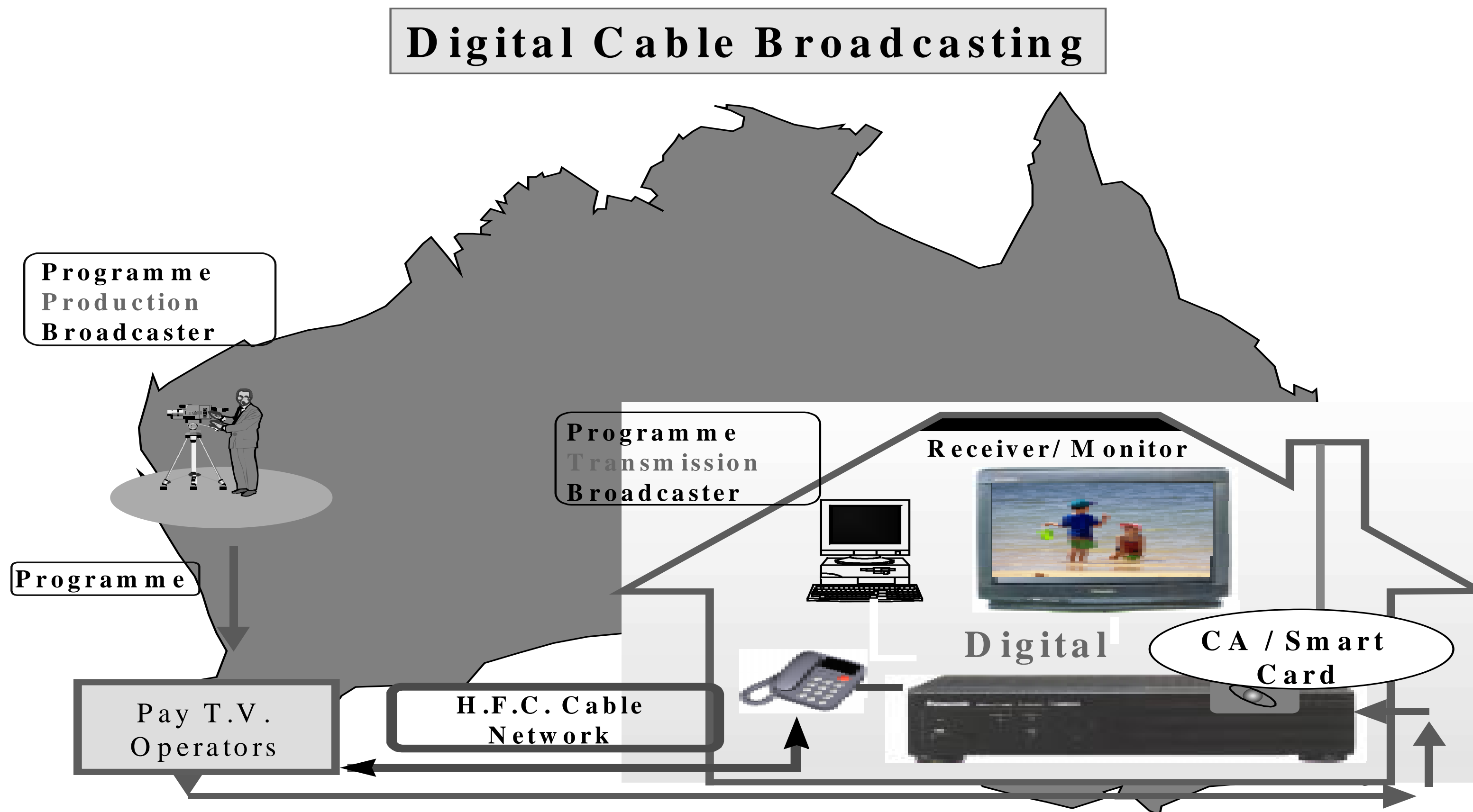
Source: Panasonic (1999).

Figure 6: Digital Satellite Broadcasting



Source: Panasonic (1999).

Figure 7: Digital Cable Broadcasting



Source: Panasonic (1999).

In the future, commercial FTA television broadcasters will not only compete with Pay TV and the Internet, but with telecommunications carriers such as Telstra and Optus, and also with datacasters who will possess the technology to provide broadcasting services. While communications and electricity companies move into the broadcasting territory, the traditional broadcasters will move into non-broadcasting areas such as communications. Traditional broadcasters will also be able to provide new digital services such as transmitting the most popular pages on the World Wide Web to home computers, software updates, electronic mail or local news and information.

Future competition in the communications and media industries will be both challenging and embracing. No one in the industry is brave enough to predict precise outcomes. It can be reasonably argued that if the current conversion to digital broadcasting is not implemented properly, then the broadcasters will not have the necessary infrastructure to compete with telephone companies and Pay TV operators as we progress into the digital age of convergence.

6. IMPACT OF DTV ON ADVERTISING REVENUES

6.1. Issues that the Government Needs to Resolve

There are many issues that the Federal Government needs to resolve before digital television services can be implemented.

There are several technical standards for digital television transmissions. The two main standards are the ASTC Digital Television Standard, and the DVB-T Digital Terrestrial Broadcasting Standard. The United States, Canada, South Korea and Taiwan have adopted the ASTC standard, which is based on a channel bandwidth of 6 MHz. In contrast, Europe and Singapore adopted the DVB standard, which supports 6, 7 and 8 MHz channelling. On 18 June 1998, the Australian Digital Terrestrial Television Selection Panel announced that the DVB system would be adopted as the standard for Australian broadcasting.

Although the issue of technical standards has been settled, there are still many outstanding technical issues that need to be addressed, which include:

- spectrum planning;
- channel allocation;
- production standards; and
- programming such as the number of hours of high definition and enhanced definition programming.

The Government is also in the process of reviewing the role and nature of datacasting, and its impact on commercial FTA television services and Internet services.

6.2. Expected Penetration of Digital Television

Viewers will need to purchase either a digital television set or a set top box if they want to watch digital television programs.

DIGITAL TELEVISION SETS

Demand studies have found that consumer demand for digital television sets is influenced by five main factors: price; programming availability; consumer expectations; availability of related video products; and consumer income (Dupagne and Seel (1998)). These predictions are consistent with consumer demand theory.

PRICE

AT Kearney conducted a market research survey on the prospective demand of digital television sets in the US, it found that price was the major determinant in influencing the

purchase of digital television sets.[9] If the price of a new digital television set was US$1000 above an existing analog television set, then about 6% of the respondents would purchase a new digital television set. But if the premium was US$500 above an existing television set, then 24% of the respondents would purchase a set. Most viewers are prepared to wait out the early-adopter buying phase before purchasing a new digital television set. Initial digital television consumers would be technology enthusiasts and early adopters.

The cost of a digital television set is expected to be in the range of $6000 to $10000 in the first few years of market penetration in Australia. The prices for digital television receivers will drop as technology develops and as demand and scale of production increases. Brinkley (1997) notes that projected prices for digital television sets were around US$3000-US$5000 prior to 1997, however, prices suddenly escalated in 1997 as engineers and manufacturers encountered unexpected problems of manufacturing consumer digital television technology.

The demand for digital television also depends on factors such as increased awareness of high definition television through a direct viewing experience (Neuman (1988), Lupker, Allen and Hearty (1988)), and the installation of outdoor antennas to receive digital television broadcasts. A consumer survey conducted for Thomson Electronics by Northwestern University found that improved picture quality was also among the most important attributes in determining willingness to pay.

Most consumers will not purchase digital television sets in the early phase of development, instead they will wait for the availability of a full high definition television programming line-up and cheap sets. Consumer diffusion of digital television could be sluggish, at least in the short term (Dupagne and Seel (1998)).

SET-TOP BOXES

A set-top box is a receiving unit which decodes the incoming sound and picture signals for delay on an analog television receiver. The most basic form of set-top boxes will receive programs from existing FTA broadcasters, as well as electronically enhanced teletext pages with high resolution graphics. Set-top is easy to set up, linking via the aerial socket to the television or VCR player. In the US, the cost of a set top box ranges from US$500 to US$800.

A digital converter box *will not* be able to receive programs in HDTV formats, but will be able to receive packages of multiplexed standard television video and/or datacast channels (De Sonne (1998)).

There are also incompatibility problems associated with set-top boxes. For example, in the UK, recent legislation allowed both BskyB and OnDigital to offer incompatible

[9] "Communications Industries: Most Critical Variable Driving Consumer Purchases of Digital TV is Price" (http://www.atkearney.com/cgi-bin/AT-ATK1search.cgi).

boxes, which could further confuse consumers traditionally wary of new technologies entering the market ("Fuzzy reception for Euro DigiTV", *Wired News* (14/9/98)).

LACK OF PROGRAMS FOR DIGITAL TELEVISION

During the simulcast period of digital transmission, not many programs will be made in digital television format, as the costs of producing programs in these formats, especially HDTV are very costly. As Rich Seidner, President of Silcon Valley Virtual Inc., remarked "it's a chicken-and-egg conundrum, until the broadcasters have a big audience, they can't sink money into a lot of production in high definition".

Richard Fish, President of LodesTone Media, an audio production company in the US, commented that:

> *It already costs hundreds of thousands of dollars to create one episode of network-quality television. And with the added attention to detail that will be necessitated by high-definition resolution and the cost of the production equipment, I can't see how an independent producer will be able to justify the cost ("Turn In, Turn On ... To What?", Wired News (10/9/98)).*

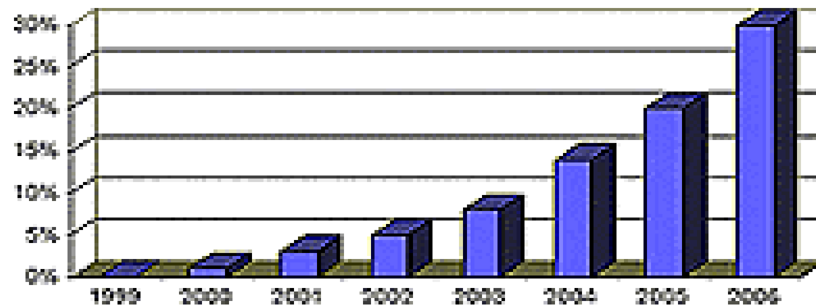
In the initial stage of digital transmission, most digital programs will be converted from existing programs. And the first serial program to be broadcast in HD format may be older programs, as most of the network serial programs (e.g. *Star Trek*) produced in the 1960s and 1970s were shot and edited on 35 mm film. These programs are easily converted for digital television. While the majority of productions since the early 1980s (e.g. *Star Trek: The Next Generation*) were edited on a video at a quality standard that is far below HD standard.

PENETRATION OF DIGITAL TELEVISION AND SET-TOP BOXES

In the United States

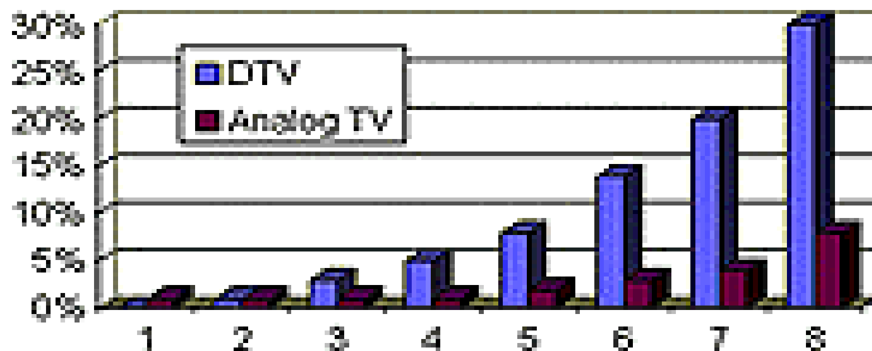
In the US, the Consumer Electronics Manufacturers Association (CEMA) estimates that penetration of digital television sets will reach 30% by the year 2006. The first 10 million sets will be purchased from 1999 to 2003. The next 10 million will be sold in 2004 and 2005. Annual unit sales will exceed 10.8 million in the year 2006. In comparison, colour TV penetration rose to only 10% during the first eight years on the market. Penetration of VCRs reached 30% in their first eight years on the mass market, and CD players reached 30% penetration in their first eight years. Beyond 2006, digital TV penetration will increase even more rapidly (Figure 8 and Figure).

Figure 8: Forecast Penetration of Digital TV Sets in the US



Source: CEMA (http://www.cemacity.org/digital/files/penetrat.htm)

Figure 9: Penetration, First Eight Years: Analog vs Digital TV in the US



Source: CEMA (http://www.cemacity.org/digital/files/penetrat.htm)

In Australia

Australia has a reputation for enthusiastic support of new technology in the world. The penetration of digital television in Australia is expected to reach 30% by 2005, 20% penetration for standard definition television (SDTV) and 10% penetration for HDTV. The penetration of set-top boxes is expected to peak in 2002 with sales of 540,000, and to fall to 300,000 in 2005 as consumers take up of digital television begins to rise (Table 10).

Table 10: Penetration of Digital TV Sets and Set-Top Boxes in Australia

	Penetration of Colour Television			
	Analog %	**Digital SD %**	**Digital HD %**	**STB ('000)**
1999	100	0	0	120
2000	99.3	0.51	0.21	170
2001	96.8	2.14	1.07	350
2002	89.6	8.33	2.08	540
2003	83.7	12.2	4.08	350
2004	75	19	6	330
2005	70	20	10	300

Source: Panasonic (1999).

Characteristics of Potential Digital TV Adopters

The early adopters of digital television are usually technology enthusiasts, information addicts and people with high incomes. There is a positive correlation between the level of education/income and high definition television awareness, interest, and purchase intention. This is consistent with diffusion theory and most adoption studies (Litman et al. (1991), LaRose and Atkin (1992), Lin (1997)).

Dupagne (1999) finds that the early adopters of HDTV sets will likely be younger, be frequent movie-goers, have higher income, watch sports programs, and express a keen interest in high-resolution and large-screen TV.

IN SUMMARY

Even though penetration of digital television in Australia will reach 30% in 2005, and it will probably penetrate the Australia households at a more rapid rate after 2005, commercial FTA TV broadcasters, however, will lose a significant number of viewers when the simulcast period terminates in 2008. The decline in the size of television audience will adversely impact on its advertising revenue base.

6.3. Problems with Implementation of Digital TV

The potential benefits that digital TV can bring are huge, they include sharper and clearer, cinema quality pictures, improved CD quality sound, a wider choice of television channels and potential interactivity with other communications devices. Digital television, however, is still in its embryonic stage of development, and there are still many obstacles to be overcome and bugs to be ironed out before consumers can enjoy the full benefit of digital TV. This section discusses some of the problems that arise in the implementation of digital television.

Inadequate Technical Capabilities

To broadcast digital programs to the viewers, most stations have to build new studios from scratch, they have to either produce new material or convert existing material for digital broadcast. However, much of the technology needed to produce digital television has yet to be invented, and broadcasters are having to develop video editing and titling equipment, special effects instruments, and playback machines as they go along.[10]

Conversion of Existing Programs to Digital Form

As discussed in Section 5.2, in the short to medium term, there will be a shortage of programs in digital format due mainly to three factors; high costs of making programs in HD format; low level of demand; and the state of technology.

Bugs in the Delivery of Programming

There are also quality problems. Snow and double images are familiar analog interruptions, but digital television comes with its own set of disruptions: frozen jumpy frames or areas of the picture that are blacked out. One viewer may have no signal, while a neighbour across the street will have a crystal clear reception. Broadcasters don't really know what viewers will get.

Craig Tanner, executive director of the Advanced Television Systems Committee, the authoritative body on the digital television standard in the United States, Canada, South Korea and Taiwan, remarked that viewers could have a broadcaster that goes off the air for an hour, and this could happen a lot in the early days of digital television. (Wired News 19/6/99).

Time is one of the essential ingredients in the implementation of digital television, as manufacturers and engineers need time to debug the problems in the new system, broadcasters need time to convert to the new system, and consumers need time to upgrade their equipment. In the meantime, television networks and stations will lose audience, and hence, advertising revenue in the transitional period.

[10] (Wired News 19/6/99).

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