## THE FUTURE OF REGIONAL COMMERCIAL TELEVISION FOLLOWING EQUALISATION AND THE IMPLEMENTATION OF THE PROPOSED NEW MEDIA OWNERSHIP RULES

### Introduction

The purpose of this paper is to outline some perceptions of the changes that will occur in the regional sector of the commercial television industry if the Federal Government is able to implement its equalisation policies and its proposed new media ownership rules.

It is important that I emphasise that the views expressed in this paper do not necessarily represent the views of the regional television industry as a whole. The Broadcasting Amendment Bill, 1986 ("the Bill") and the proposed media ownership legislation, if passed by the Senate, will impact on individual licensees in widely varying ways. It is for this reason that regional licensees have differing views on how equalisation should be achieved and the timetable for the introduction of the additional services.

The Bill gives licensees two options by which they may proceed to equalisation. One is via multichannel services ("MCS") leading to the eventual aggregation of existing markets, whilst the other is direct aggregation. I use the word "option" with some reservation because the "one-in-all-in" rule, combined with the other deterrents against choosing the MCS path to equalisation that are contained in the legislation, means that in real terms equalisation will be achieved by direct aggregation in all of the markets that are affected by this legislation.

The majority of regional licensees would like to see the Bill rejected by the Senate but there is also a significant minority that support passage of the legislation. Those that want the Bill rejected fall into two groups. The first group comprises those licensees that support the principle of equalisation but want a genuine choice between MCS and direct aggregation. They want a majority rule to apply and removal of some of the other deterrents, such as the continued application of the two station rule in markets where MCS is adopted as an interim step to aggregation. The second group comprises those licensees who disagree that there is a need for three services in regional areas. They would prefer to go back to the old supplementary licence scheme and have each regional operator provide two services by taking programs from each of the three networks.

Those licensees that support direct aggregation make up a third group, and they do so because in their particular markets they will be less disadvantaged by proceeding directly to aggregation, than moving through an interim MCS phase.

It would be appropriate for me to tell you where my company stands on these issues so that you can take our position into account when considering the views expressed in this paper. My company's position does not fall into any of the three groups that I have mentioned.

Whilst we share many of the concerns that have been expressed by those licensees that oppose passage of the Bill, we believe that the best interests of regional viewers would be served by the early passage of this legislation.

I will explain our reasons for adopting that position.

### Developments in Recent Years

Since 1979, various proposals for the provision of additional commercial television services to regional areas have been considered by both Labor and Liberal/National Governments. A major public inquiry - the SBS Inquiry - was held in 1984, and for the past two years the present Government has focussed its policy considerations on the equalisation of commercial television in regional Australia.

Since February 1985, the Government's equalisation proposals have been widely canvassed by the Department of Communications' Forward Development Unit and its consultants, a Government Equalisation Task Force, a Committee of Cabinet Ministers, other

Government and Opposition policy committees, and more recently, the Senate Select Committee on Television Equalisation. The consultative processes that have occurred over this period have involved extensive liaison with, and input from, the television industry, consumer groups, unions, the Australian Broadcasting Tribunal, the Broadcasting Council, the Media and Communications Council and many other organisations and individuals.

It is our view that any further protraction of these consultative processes will serve only to further confuse and complicate the proposals that we are debating here today and, more importantly, further delay the introduction of additional television services for regional viewers. As it is, even under the presently proposed legislation, many regional viewers will not receive any additional services until 1992.

The Bill and the Indicative Plan, which details the Approved Markets referred to in the Bill, reflect the many compromises that the Government has made in taking into account the diverse range of views and opinions expressed by those organisations and individuals involved in the consultative processes of the past 8 years.

Regional licensees have been particularly active in making known their views on particular aspects of the Government's proposals. Some changes have been made as a result of arguments advanced by regional licensees, such as the need for Approved Markets to contain at least one million people for there to be any prospect of the market supporting three competitive services.

Although we would like to have seen further changes to those aspects of the Government's proposals that discriminate against regional licensees - who it must be emphasised will bear the brunt of the enormous capital and additional operating costs involved in equalisation - our first concern is for the finalisation of these matters so that regional viewers can enjoy the additional television services that we are technically capable of providing to them.

**Consequences of Equalisation**

So what will regional television services look like when equalisation is achieved?

Assuming that equalisation is implemented by direct aggregation of existing markets, and I emphasise again that all of my comments are based on that assumption, each regional licensee will affiliate with one of the three major networks.

Affiliate stations will take the majority of the program output of the network station with which they are associated. With the advent of the domestic satellite, it is now possible for even the most distant regional station to do that.

The main change that will be apparent in regional television following equalisation will be a reduction in local program content. The reason for this is that funds currently allocated to local program production will be required to cover the additional technical operating costs resulting from the expansion of services into the larger Approved Markets.

Equalisation will involve the installation in the eastern states of 45 new main transmitters and associated studio facilities and over 250 translator stations. The capital cost of those facilities will be in the order of $250 million. The additional operating costs that will be incurred in providing those additional services, will be in the order of $100 million a year. Yet the total combined profits (before tax) of all regional licensees is only $50 million a year.

So how will the regional television industry be able to absorb the costs of equalisation? It will do it by cutting operating costs. Some savings will be achieved by affiliate stations being able to take a direct relay of network programs off the satellite and retransmitting them in real time, thus saving the cost of recording programs, handling tapes, and employing personnel to operate replay machines at every regional station. In fact, we now have technology to computerise operations to the extent that we can load all of the commercials that are required to be transmitted into a machine, hooked up to a computer, that will switch those commercials to air in the breaks in the program that are designated by the originating network station in Sydney. This will enable us to reduce our operations and technical staff. Ironically, one of the biggest difficulties that regional operators will face in the future, will be finding skilled personnel to maintain the very sophisticated technical equipment that will be required to automate station operations in this manner.

The satellite delivery of networked programs has the potential to save regional operators about $10-20 million. This is still far short of the $50 million savings in costs that regional operators will be required to make. There is one other area where cost savings of this magnitude could be made - and that is in the production of local programs.

I am not aware of any estimates that have been made of the cost of local production for the regional industry as a whole, but I do know that for my station, 32% of total operating expenditure is spent on local production. Of that, seven per cent relates to the production of local commercials. That activity will, of course, continue and anyway that expenditure is recouped through production charges to agencies and clients. That leaves 25% of operating expenditure that could be saved if all local program production was terminated. If that figure could be extrapolated to all regional licensees in the eastern states, then total savings would be in the order of $30-40 million.

There are other areas where minor savings can be made but if you have followed the simple arithmetic of this exercise, you will have determined that the savings that can be achieved in the two areas that I have spoken about, are sufficient to keep regional operators in the black.

Although local content will be substantially reduced, I believe that competitive pressures will cause regional stations to maintain some local news content, and perhaps some local current affairs programming in the larger markets. It will be programs such as local sports coverage, children's programs, cooking programs, quiz shows and chat shows, that will disappear because they cost regional stations much more to produce than the revenue those programs generate. For most stations the local news service is the only local program that generates ratings comparable to networked programs. At present regional stations are enjoying good profits and can afford to produce a wide range of local programs as a service to the communities they are licensed to serve. After aggregation, when they will have to operate in a competitive environment and serve areas three times as large as they do today, there will be very limited funds available for local programs. Local production budgets, in the main, will be absorbed by the additional technical operating costs resulting from equalisation.

Although stations will be serving areas approximately three times as large as they do today, total revenue will be shared between three operators and therefore individual revenues will not significantly change. The only variations will be where markets of uneven size are aggregated. A licensee in a smaller market, being aggregated with two larger markets, will gain some revenue but this will be at the expense of the larger operators.

I do not support the view that there will be real growth in revenue to produce the sorts of profits predicted by the Department of Communications in its various reports on equalisation. The television industry is currently experiencing negative growth and I do not believe that trend will be reversed until there are significant improvements in the Australian economy. Even when a turnaround does occur, it is unlikely that we will ever catch up to the projections made by the Department because by the time equalisation is completed we will have to cope with competition from new services such as pay television which in my view are only 3-4 years away. Even if those services are totally subscription supported they will still take audience away from free commercial television and affect the rates that we are able to charge advertisers. However, I think it is more likely that they will be hybrid services, supported by both subscriptions and advertising, of the type already being provided to clubs and pubs by operators like Skychannel and Club Superstation.

In very simple terms, what the Government has done in electing to pursue its equalisation policies, is to trade-off existing levels of local content for additional services. It is not possible to have an advertiser supported television system in a country of 16 million people that provides three locally originated competitive services to all its residents. The revenue base is totally insufficient to achieve that. However it is possible, and has been since the launch of the domestic satellite, to provide three competitive national network services originating from Sydney.

I do not propose to argue for or against such a system. We have been debating those arguments for the last three years. The facts are that the Government has decided to provide three services to all Australians through a system of national networking and I would suggest that the comments its members have made in the majority Senate Select Committee Report about existing levels of local content being maintained and its recommendations about the introduction of new local services to communities such as Geelong, are merely political rhetoric to placate those who do not agree with the course on which the Government is embarking.

### Questioning Limits on Ownership

As far as the proposed limits on television ownership are concerned, in my view it will make no difference if the limits are set at 75% of the national audience or 100%. An operator covering 75% of the national audience will effectively have control of the programming for the whole network. Affiliate licensees making up the other 25% will not have the buying power to compete with its major network partner and it is unlikely that they will be able to find other sources of programming that will provide them with programs that will work better in their markets than those that will be available to them through their network affiliation arrangements.

Reducing the ownership limits to 43% or 50% only defeats the purpose of national networking. The object of networking is to avoid duplication of resources so that it can be viable for three commercial services to be provided to all Australians. At 43% or 50%, control of a network would be split between at least two licensees but there would still be one dominant network partner, namely the licensee that controls Sydney and Melbourne. Therefore there seems to be little point in setting the ownership limits at levels that will prevent the networks from taking advantage of the economies of scale that are the whole purpose of networking.

Assuming that the limit is set at 75%, it is likely that further acquisitions of stations will be made, with each of the networks no doubt endeavouring to acquire a station in each of the capital cities and one of the regional Approved Markets, which, after aggregation, would bring them close to the 75% limit. One, or possibly two, of the existing network licensees may be able to achieve that in the short term, but I think it will be some years before all three networks are structured on a 75/25 per cent basis. I would not be at all surprised if at that stage the limit was raised to 100%

One question that does arise from this is: "Why would a network be interested in acquiring regional stations given the rather bleak future trading prospects that I have spoken of?" The comments that I made earlier about stations having to cut costs to stay in the black assume that revenue is split equally three ways. In reality what is likely to happen is that many advertisers will buy only the top one or two stations in each regional market and therefore the revenue split between the three stations is likely to be uneven - as is the situation in metropolitan markets. The regional station that is affiliated with the top rating network - and which one that is may vary from year to year -

will probably continue to generate reasonable profits. In the early years of equalisation, I believe there will be one station in each regional market operating at a profit, perhaps one other in the black and one operating at a loss.

**Network/Affiliate Relations Under National Networking**

Finally, I'd like to make a couple of other comments about network/affiliate relations under a system of national networking.

I do not agree with the predictions of media commentators that national networking will immediately lead to all national advertising being sold by the Sydney networks and being relayed to their affiliate stations. The experience of the Ten Network and the Olympic Games in 1984, demonstrated that that proposition is much harder to put into practice than it is in theory. Many products and brands do not have the same level of distribution in all states and there are only a limited number of advertisers currently placing national schedules across all stations. Admittedly, that may change when the opportunity to buy a national schedule is made available to advertisers on a permanent basis but I believe those changes will occur later, rather than sooner.

I do not believe that the network stations will take unreasonable advantage of the program buying power that they will have over their regional affiliates. There will be no advantage to the networks in sending their affiliates broke by charging more for programs than they can afford. In fact, given the enormous additional operating costs that regional licensees will have to absorb, it is likely that in the early years of equalisation, the lower rating networks may end up having to subsidise the cost of some programs to their affiliates.

**David Astley**

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## MEDIA OWNERSHIP AND CONTROL POLICY IN AUSTRALIA

**Speech by Ian MacPhee, Former Shadow Minister for Communications**

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It is a great pleasure to be here today to speak at this seminar which has been organised by the Australian Communications Law Association. Seminars such as these are an excellent vehicle for discussing most important issues facing Australians and the issue of the ownership and control of the media is of fundamental importance to our society.

Today I intend to make some observations about the Labor Government's record in this area - particularly its handling of its media ownership and control legislation - and the Coalition's views in regard to the broad intentions announced by the Government last year in respect of those proposed legislative changes.

Over recent months Australians have witnessed a dramatic but deliberate restructuring and rationalisation of the media industry. This process is not finished and one would expect it to continue well towards the end of this year, if not the next. Unfortunately, up to this stage the media's coverage of the issues involved has been rather disappointing. It has chosen to concentrate more on the exciting aspects of takovers themselves, the vast inflated sums paid for media acquisitions, and the personalities and politics involved. Left well behind has been any thoughtful analysis of the effects such changes will have on a number of vitally important issues which are often forgotten in the frenzied scramble for newspapers and television stations. They include freedom of speech, diversity and choice, quality of programming and print. I noted in Parliament