Competition, Viability and Diversity of Service

Bob Peters argues that broadcasting regulators could learn from developments in the United States

Advocates of freer, less regulated and more competitive local broadcasting markets often cite the broadcasting system in the United States, with its significantly larger number of commercial television, cable and radio services, as being the classic example of what Australia has to gain from rapidly moving to a more open and competitive broadcasting environment.

Such a view is predicted upon the usually unstated and largely untested assumption that, in any given market, any increase in the number of operators and competing services inevitably will lead to an improvement in the quality and diversity of services available to the public in that market. It is generally assumed that "more always means better", regardless of the possible adverse financial consequences of new competition or the threat of a decline in the quality of services offered by the incumbents.

Curiously, the local advocates of such open market, pro-competitive views appear to be either unaware of, or uninfluenced by, some extremely relevant recent regulatory developments in the United States. Those developments cast serious doubt upon the wisdom of introducing sudden increases in any form of broadcasting or narrowcasting competition into the marketplace.

In September of this year, the Federal Communications Commission ("FCC") relaxed radio station ownership limits in the United States. In effect, the FCC concluded that remedial regulatory action was warranted because too much new competition had been introduced too quickly in the United States in recent years. The Commission found that excessive competition now threatened both the economic viability of the American commercial radio industry and the public interest.

Viability and program diversity

These recent experiences in the United States are relevant to the Australian radio and television industries. They clearly demonstrate that the development of new and diverse services in any marketplace is dependent not only on the total number of broadcasting services available, but also on the economic viability of those services. Too many services can lead to deterioration in the quality and diversity of available services. The close relationship between economic viability and program diversity in the American radio market suggests that, although Australia's new *Broadcasting Services Act* ("BSA") makes no specific reference to commercial viability criteria, the new Australian Broadcasting Authority ("ABA") nevertheless should take the economic viability of all commercial broadcasters into account when considering the allocation of new licences in the future. There is no doubt that the number of audio and visual entertainment media outlets in Australia will continue to grow as a result of technological development. Given such an environment, the challenge for Governments and regulators, will be to plan sensibly for their introduction.

The recent radio ownership rule relaxation introduced by the FCC is intended to promote a financially vibrant marketplace, which the FCC views as a prerequisite for the promotion of economic competition and program diversity. Following a review of its previous radio ownership rules, the FCC concluded that an increase in the concentration of radio station ownership would probably produce an improvement, rather than a deterioration, in both program diversity and in the development of new broadcasting services.

Market fragmentation

In arriving at this decision, the FCC found that, as a result of a continuing increase in the number of radio and non-radio outlets, such as cable, which compete with radio broadcasters for audience and advertising, the radio industry in the United States was experiencing tremendous market fragmentation which, in turn, was creating "severe economic stress" for many broadcasters. So severe and widespread was this economic stress, that it led the FCC to question the American radio industry's continued ability to serve the public interest. Moreover, the FCC concluded that it was time to allow the industry to adapt to current market conditions free of artificial constraints that prevent valuable efficiencies from being realised.

By relaxing its radio ownership rules, the FCC expected to assist both radio operators and radio listeners, giving the former the potential to reduce operating costs and offering the latter the prospect of improved programming quality and choice. However, when setting its new radio station ownership limits, the FCC was careful to strike a balance which allowed a greater concentration of ownership to enhance the industry's overall economic viability, while not threatening industry competition and diversity.

The new FCC rules

The FCC's recent radio ownership rules changes have two main features. The first is that the national radio station ownership limits were increased from 12 to 18 AM stations and 18 FM stations initially, and to 20 AM stations and 20 FM stations after two years. The second feature is that the local market radio station ownership limits were increased from their previous limit of one AM and one FM station in a market. Under the revised ownership rules, in markets with 15 or more stations, a single entity now can own up to two AM and two FM stations, provided the proposed combination does not lead to excessive concentration in the local market.

In markets with fewer than 15 stations, a single entity now may own up to three radio stations with no more than two on the same band, provided that the commonly owned stations represent less than half the total number of stations in the market.

In relation to the national station ownership limit, the FCC concluded that it could "... *safely be relaxed ... without adversely affecting competition and diversity in the national marketplace of ideas*". In arriving at this decision, the FCC reaffirmed that "... *competition and diversity are relevant primarily at the local, not the national level*". The FCC also argued that an increase in national station ownership limits could actually increase viewpoint diversity. It accepted evidence that group-owned stations take editorial positions, engage in basic reporting and make coverage decisions on an autonomous basis.

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Economies of scale

In terms of likely financial benefits accruing to operators, the FCC observed that expenditure on news and information programming in part was a function of economies of scale which should be assisted by a relaxation of the national radio ownership limits. Although the FCC noted that it could have justified an even higher new national station limit, it emphasised that its recent relaxation of national ownership restrictions were intentionally gradual and evolutionary in nature rather than sudden and revolutionary. Such an approach contrasts the FCC's earlier more radical stance as exemplified by the Docket 80-90 decision, which produced a flood of new FM radio stations. The danger associated with such radical change, was enunciated by Commissioner Duggan in a separate statement accompanying the Report and Order issued in April of this year. He described Docket 80-90 as an economic disaster for the industry.

In relation to its revised local radio ownership limits, the FCC concluded that its commitment to promote competition in both the economic marketplace and the marketplace for ideas would not be threatened by a moderate reduction in the local ownership rules. The FCC was also concerned that the existing local ownership rules could actually be hampering competition and diversity by denying stations economies of scale.

Increase in media

The severe economic stress experienced by many American radio broadcasters is directly related to explosive growth in new radio and alternative entertainment media outlets. The major increases in competition were from more commercial radio services and an increase in the penetration, popularity and usage of cable television services and video cassette recorders ("VCR"). Between 1980 and 1991, the total number of radio stations in the United States increased by 20%.

Among the alternative forms of entertainment media, cable television has presented the most serious new competitive challenge to radio over the past decade. Between 1980 and 1991, for example, the number of subscribing homes increased from 25% to 64% of all homes with televisions. The share of total television viewing captured by basic cable programming (not retransmitted free-to-air programming) increased from 14% to 24%.

Video cassettes recorders ("VCR") were the other fast growing competitor to radio in the home entertainment market during the 1980s. According to the Television Bureau of Advertising, VCR penetration increased from only 1.1% of all television households in 1980 to 71.9% by 1991. As VCR penetration increased, so too did its usage. Gross expenditure on the purchase and rental of videos grew dramatically during the 1980s, by a rate in excess of 585%.

Although during the 1980's total radio industry advertising revenues grew at a rate which was slightly in excess of the overall economic growth rate, radio advertising revenues per station in real terms declined after 1988. This reflected both the continuing growth in the number of stations throughout the 1980's and a slowdown in industry advertising revenue growth from 1985.

As a result of falling real revenues per station and a cyclical downturn in the American economy overall, radio industry profitability declined dramatically during the latter part of the last decade. Consequently, more than half of all American commercial radio stations lost money in 1990 and, as a result of profit pressures, more than 287 radio stations were off the air by early 1992.

Lessons for Australia

The recent economic and regulatory developments in the American radio industry have a number of important implications for the broadcasting industry in Australia. First, the American experience clearly demonstrates the close link between the economic viability of commercial radio and television and their ability to continue to serve the public interest by providing quality programming on an on-going basis. Second, developments in America over the past decade also demonstrate that the introduction of too much new competition too quickly can jeopardise the capacity of the commercial broadcasting industry to continue to serve the public interest. Third, commercial radio and television stations compete not only among themselves for audiences and advertising revenues, but also, to varying degrees, with non-commercial radio services and alternative entertainment media, including cable or pay television services, cable or pay audio services and video cassette recorders, most of which have experienced strong growth over the past decade and are likely to continue to do so in the foreseeable future.

Like its American counterpart, the commercial radio industry in Australia has experienced significant increases in direct and indirect competition over the past decade which has contributed to its current extremely fragile financial state. Despite its vulnerable financial condition, it is inevitable that the local commercial radio industry will be subjected to further increases in competition in the future, the most immediate being the impending introduction of pay television which, based on the American experience, should prove to be a formidable new rival.

In view of the above factors, future Australian Governments, as well as the ABA, should be strongly encouraged to take a gradual, rather than a radical approach, to the introduction of further new commercial radio and television services, be they of a broadcasting or a narrowcasting nature. The ABA also should be encouraged, and preferably required, to specifically take the economic viability of operators into account when considering the issue of new broadcasting or narrowcasting licences in the future, as is now required of the Canadian Radio-Television and Telecommunications Commission.

New technology

With onoing technological developments Australia, like every other country, faces the prospect of ever-increasing fragmentation and competition among its entertainment media in the future. If Australia's legislators and regulators wish to ensure that these local entertainment media continue to serve the public interest with the provision of quality, culturally relevant programming, then they should be concerned to maintain and nurture the economic viability of these various media.

As part of the nurturing process, Governments and regulators should seek to avoid, rather than to imitate, the mistakes which have been made in overseas markets such as the United States. In particular, they should not mistakenly equate the quantity of services provided with the quality of services provided. Nor should they seek to introduce too many new competitive services too quickly. Finally, they should continue to monitor the results of their policy decisions and take remedial action when those decisions fail to achieve their intended objectives.

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