

digital one

Response to the Ofcom consultation

“Radio – Preparing for the Future”

4th March 2005

EXECUTIVE SUMMARY

CONTEXT

Digital One welcomes Ofcom’s consultation “Radio – Preparing for the Future”, and is pleased to submit its response. Radio is fundamental to the fabric of British society and touches almost every member of the public. Its importance is too often understated, particularly in comparison to television, yet it generates more passion, feeling and loyalty than any other medium.

As a commercial business, as a consumer experience and as a medium in its own right, radio is undergoing the most rapid and potentially disruptive change it has ever faced. The future of radio is crucial to us all and decisions made as a result of this Ofcom consultation will have far reaching effects, shaping the fortunes of radio during its transition to digital and for the next 20 to 30 years.

Digital One’s key contribution to the development of DAB digital radio is widely acknowledged in the industry. Digital One took significant financial risks and has provided an extraordinary level of commitment in leading and developing DAB digital radio, much of it without support from other sections of the radio industry. Had it not been for Digital One there would have been no national DAB digital radio multiplex, no subsequent local multiplexes, no DAB chip competition, no mass market receivers and in all probability there would no longer be a DAB radio industry.

SUMMARY

Key points we make in our submission include:

1. Ofcom should recognise and respect Digital One’s position as the first and only national commercial multiplex. The investment, risks and burden undertaken by Digital One are significant and relevant factors. A decision to licence any

further national DAB compatible spectrum would unfairly damage Digital One whilst it is still only part way through its initial licence period.

2. A top priority should be allocating spectrum to Digital One to extend coverage of the national commercial multiplex into Northern Ireland and level the playing field with the BBC.
3. Completion of local coverage is the next priority. Five blocks of Band III spectrum are needed to allow all local radio stations to have the opportunity to migrate to the digital platform. The current proposal to use only three blocks would 'orphan' many stations on AM and FM and disadvantage their listeners.
4. We believe that a provisional allocation by Ofcom of spectrum for the migration of smaller stations would be an important stimulus for the development of innovative and affordable DAB transmission solutions. We believe there are new business models for sustainable local DAB digital radio multiplexes. Digital One flags an intention to apply for this type of small local multiplex licence alongside our national digital radio business. We are confident we can deploy solutions which enable all levels of radio broadcaster to go digital.
5. Ofcom has acknowledged that the economics of DAB digital radio are fragile. As with any new market, additional competition must be managed carefully, introduced gradually and with great care. Excessive and unfair competition carries the danger of damaging or destroying the entire market. Licensing timetables for new multiplexes should take account of the financial consequences for existing multiplex operators and digital radio stations as being a relevant factor. It would be an injustice to cause material financial damage to such companies.
6. Further work needs to be done to properly assess the spectrum options and the economic impacts. We do not find the report by Analysys, DotEcon and Mason convincing and we are concerned that Ofcom is relying too on it too heavily. Digital One has commissioned two independent reports to examine all options in more detail and we urge Ofcom to commission further work itself.

7. DAB digital radio is the best digital platform to migrate UK radio (and listening to local, regional and national stations) into the digital age.
8. Unequivocal support by Ofcom for the digital future for radio will build confidence among broadcasters, the manufacturing industry and consumers. While recognising the importance of Ofcom's platform and technology neutrality, we would welcome a clearer statement of support for DAB digital radio, the long-term goal of digital switchover and the critically important role for mobile reception that only DAB digital radio can offer.
9. It is recognised by Ofcom that the DAB digital radio market is still in its early stages. Digital One sees advantages in a flexible approach and proposes that, given the likelihood of a long migration period from analogue to digital and consequently that the future is not clear, there is a strong argument for some spectrum to be reserved for future use as the market develops.
10. Allocation of further national multiplexes, whether under the Broadcast Act or Wireless Telegraphy Act, would be unfair and a disproportionate distortion of the market.

Our response is in three parts:

- Part I contains this Executive Summary together with a Confidential Section. These two elements should always be read together as a whole.
- Part II contains our answers to the consultation questions together with a section dealing with issues arising out of the consultation which are not addressed by the questions alone.
- Part III contains a confidential section and a number of related statements from key people in the industry.

In our submission we have included references and information that are commercially confidential. We trust that our candour will be helpful. However, as a result, the other parts of our response (with the exception of this Executive Summary) are being submitted confidentially. We appreciate that Ofcom often quotes from the responses at later stages in a consultation. With our prior agreement, we are happy for extracts from

our confidential sections to be used in this manner and, indeed, would be prepared to review our decision on confidentiality if Ofcom believes this would be beneficial.

We have always accepted the Government's intention is to foster an environment for sustainable DAB digital radio driven by the public and private sector, with the aim to deliver the public policy benefit of a thriving radio broadcasting sector. This is achievable provided it also recognises that commercial returns are due to investors who have been prepared to risk private capital. This framework is relevant to the current proposals.

We trust that our submission will inform the process and lead to a stronger, more secure and thriving future for radio. We invite Ofcom to discuss all the issues raised with us in more detail.

ENDS

4 March 2004