CRCA

Spectrum Pricing Response

Introduction

1. The Commercial Radio Companies Association (CRCA) is the trade body for UK commercial radio. It represents commercial radio to Government, the Radio Authority, copyright societies and other organisations concerned with radio. It manages the Radio Advertising Clearance Centre which clears national and special category advertisements prior to broadcast. CRCA also jointly owns Radio Joint Audience Research Ltd (RAJAR) with the BBC and was instrumental in the formation of the new Digital Radio Development Bureau, a company owned by UK digital radio multiplex owners.

2. CRCA members include national commercial radio stations, as well as most local and regional stations. They account for almost half of all the radio listening in the UK and around three quarters of local listening in the UK. As well as promoting the importance of commercial radio, the CRCA plays an active role in promoting conditions that will enable it to thrive into the future.

3. CRCA responds to Professor Martin Cave's 'Review of Radio Spectrum Pricing' in two areas: over-arching economic principles and industry specific matters. We believe the report's economic principles to be flawed since it fails to take account of market externalities and segmentation. Furthermore, we believe that the report's contention that its principal aim is to encourage efficient spectrum use, rather than to generate income, does not hold true when its recommendations are applied to commercial radio.

Economic Principles

4. The proposals in the Review rest fully on the proposition that a market in spectrum, encompassing both initial auctions and subsequent spectrum

trading will reveal the true opportunity cost of the use of spectrum. This would be true if the following conditions hold:

a) There are no externalities to the use of spectrum, i.e. there are no costs and benefits to society which are not part of the process of price determination.
b) The market is not highly segmented.

5. If assumption ‘a’ were true then there would be no public interest in the use of spectrum. But it is clearly untrue. There are wide-ranging public policy interests in the use of spectrum because that use by any one individual or company results in costs and benefits for others. These costs and benefits are expressed in public policy goals for the technical management of spectrum (non interference) and for the outcome of that use – public policy interest in broadcasting content for example. The presence of these externalities ensure that a market outcome will be inefficient. Indeed virtually all the review is seriously flawed by its failure to take externalities fully into account, other than the occasional reference to the co-existence of regulation (to handle externalities) and pricing. It nowhere spells out how regulation and pricing are to co-exist in the attainment of social goals. The problem with Prof. Cave’s argument is that he assumes that private opportunity cost accurately reflects public opportunity cost. This is manifestly untrue.

6. The Review’s argument for an effective market in spectrum also relies on the market not being highly segmented, i.e. on the assumption (assumption ‘b’) that one bit of spectrum is much like another. If this were the case, then trading of spectrum between alternative uses would reveal the opportunity costs that the report seeks. But the problem is that one bit of spectrum is not like another, the market is accordingly highly segmented, and the opportunity costs revealed by the Review’s procedures will be highly dependent on the public policy decision on the allocation of spectrum between broad alternative uses.

7. The Review’s arguments are not dissimilar to the arguments for the sale and trading of fishing licences within the EU. As is well known this has led to considerable difficulties for the UK fishing industry and a number of socially undesirable outcomes. The social outcomes, increased unemployment in fishing ports, failure of local small businesses etc, are the externalities that were not taken into account in the pricing process.

Pricing Commercial Radio Spectrum

8. Commercial radio questions how the ‘opportunity cost’ (11.11) of the spectrum that commercial radio uses, and which the report seeks to levy, might be assessed. There can be little to commend auctions which, whether for spectrum (3G mobile telecommunications) or sports rights (BBC versus ITV Digital) have significantly disadvantaged both industry and consumers.

9. Commercial radio is an efficient user of spectrum and its overall cost to society is very low: it is a one-to-many means of communication, and its content does not place the burden of cost on to the listener. Thus from radio's perspective, the report's recommendations seem less likely to achieve efficiency than to add a new burden of cost to the industry.

10. Greater efficiency of spectrum usage (11.11) would only result from exposing users to the opportunity cost of their spectrum if they (as opposed to the regulator) were in control of the spectrum allocation and if licences were sufficiently flexible to accommodate fluctuations in spectrum access depending on factors such as time of day. They are not and it is difficult to see how they can be.

Public Service Broadcasting

11. The report suggests (11.45) that all broadcasters should pay the opportunity cost for their spectrum regardless of their public service obligations. It further suggests that a separate funding stream for public service content could be established to make a counteracting positive financial contribution to the content being provided. This seems to us to be an unnecessarily cumbersome and costly process. Furthermore, such a process is likely to suffocate innovation since funding would naturally be focused on existing programming ideas. If spectrum pricing were to be introduced, a single transaction process should simply set any levy against the level of content promises which a broadcaster has made at the time of licence award or is prepared to volunteer in its annual statement of programme plans to OFCOM.

The BBC

12. The report states (11.13) that the BBC's desire to see spectrum sub-leasing allowed implies that the publicly-funded broadcaster has surplus spectrum. Given the BBC's duplication of output on different wavebands and extensive shared programming, commercial radio is inclined to agree. However, within our own industry, there are many stations whose spectrum allocation is insufficient, and who experience significant difficulties being heard within their core areas. These small community-based stations broadcast high volumes of news, information and other public-service items. Commercial radio is not awash with unneeded spectrum.

13. In valuing spectrum, the price that the competing players in the market might be willing to pay is bound to be assessed. In the UK, BBC radio is sufficiently generously funded to be able to pay prices above those which a commercial radio competitor can afford. Unless carefully handled and accompanied by a clear independent understanding of what the BBC should be doing and what spectrum resources it needs to do it, an auction process might force BBC radio's competition out of some markets. This would be undesirable.

Conclusion

14. CRCA does not believe that the proposals in the report will deliver its objectives of spectrum efficiency, because it fails to take account of externalities and market segregation. From commercial radio's perspective, it will not achieve efficiency, merely an increased burden of cost.

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