CRCA's Response to the Independent Review of Radio Spectrum Management

1. CRCA is the trade body for commercial radio in the UK. Its members include both the national commercial radio broadcasters and almost all local commercial radio broadcasters. It is pleased to respond to the Radio Spectrum Review consultation Paper published in June 2001. In doing so, it confines its attention to the questions posed about broadcasting.

Key points

- The Government's own FM audit research points to radio broadcast spectrum already being used in a broadly efficient way.

- Increasing the price of analogue spectrum either to encourage migration to digital or for any other reason would have the effect of forcing those commercial stations that are most community-critical out of the marketplace.

- The number of BBC radio services and/or their terrestrially transmitted coverage could be reduced.

- Commercial radio is already meeting the review's "over-arching principle (whereby) all spectrum users should face some form of price reflecting the opportunity cost of their spectrum use" by way of its regulated content commitments.

CRCA's answers to the questions about broadcasting posed in the consultation paper.

(Does the consultation paper give) a valid description of the factors affecting use of radio spectrum by the broadcasting sector?

Commercial radio believes it uses efficiently the spectrum awarded to it. Both national and local commercial radio stations are restricted regarding the number of people they can cover by spectrum allocation and by limitations to the power output of their transmitters.

The consultation paper does not acknowledge the disparity between the way in which spectrum is allocated to and used by the BBC and commercial radio.

Commercial radio is currently assigned 8MHz of the FM waveband, whereas the BBC is assigned 11.5MHz. Commercial radio has a 46% share of FM radio listening with the BBC having a 54% share, this despite the 41/59 spectrum split. A rather crude assessment of these figures demonstrates that commercial radio is 23%[1] more efficient at delivering audience per spectrum allocation, despite having only one national FM service (Classic FM) in contrast to the BBC's four.

The BBC broadcasts many radio services in triplicate on the AM, FM and digital wavebands and is guaranteed space on digital radio multiplexes. Commercial radio services are **not** guaranteed digital multiplex spaces and, with one exception (the local station for Inverness), do not simulcast on AM and FM wavebands.

CRCA believes that local commercial radio is already meeting the review's "over-arching principle (whereby) all spectrum users should face some form of price reflecting the opportunity cost of their spectrum use" by way of its regulated content commitments and WTA fees which include support for the Radio Investigation Service. Additionally, national commercial radio contributes more than £10m each year to the exchequer by way of direct bid and percentage of qualifying revenue payments.

CRCA maintains that its members pay a fair and increasing price for the spectrum they occupy. This review takes place at a time when the Government is encouraging the Radio Authority to license new, low cost "Access Radio" services. It seems that this desire pulls in the opposite direction to that which has occasioned the review.

It seems to commercial radio that, in assessing the "value" of the spectrum used, one cannot overlook (as this report does) the use to which the spectrum is put. The commercial radio industry is at the core of geographical and

[1] Commercial radio's index of audience delivery to spectrum occupation is 112 compared with the BBC's index of 92 (where an index of 100 would represent pro rata audience delivery)

interest communities throughout the UK. Its social action work involves extensive fundraising and support for local community groups. Commercial radio broadcasts over 1500 hours of news, travel and weather information each week, and the industry spends over 500 hours each week giving information on local and community events. With 26 million adults tuning into local commercial radio each week, 78% of all local radio listening[2], it is clear that our industry is meeting the information needs of its audience as well as providing entertainment. Commercial radio's use of spectrum must be seen within the context of the industry's significant contribution to public service broadcasting.

How can the Government's commitment to value the spectrum used by broadcasters be implemented in a way which encourages spectrum efficiency?

A desire to encourage spectrum efficiency implies that such efficiency is currently not being achieved.

Dealing firstly with the broader issues of spectrum efficiency: radio broadcasting is traditionally accepted as an efficient use of spectrum by virtue of its one-to-many profile. When compared to telecommunications' one-to-one method of spectrum use, broadcasting is very efficient at delivering a public service. Commercial radio adds another layer of efficiency; its independent funding means that it does not draw on public funds.

In June 2000, the specific efficiency of the FM waveband was the subject of a detailed analysis. The Radiocommunications Agency, the Radio Authority & the BBC commissioned a report into whether additional services could be accommodated on the VHF (FM) waveband. The report examined the history of FM spectrum planning and explored the potential of two geographical areas: Greater London and Leeds/Bradford.

A key conclusion was that "no evidence has been found, given existing UK policy, ITU-R planning standards and the history of *ad-hoc* development of [FM] services, that this spectrum could have been planned significantly more efficiently". In the two examined markets, negligible amounts of spectrum were found for additional services, and those that were would have necessitated the migration of existing services from their current frequencies.

The report concluded that "for reasons of audience stability and "brand identity" there exists a disincentive to change the frequencies of existing stations. In the case of commercial services, such a change might be expected to result in a loss of revenue."

[2] Source: Rajar Quarter 2 2001.

What further incentives might be introduced, consistent with wide broadcasting policy and with previous Government commitments about television and radio franchise fees, to encourage greater spectrum efficiency by commercial broadcasters? Are there differences in the approach to incentives before and after the proposed switchover from analogue to digital terrestrial TV broadcasting?

Paragraph 83 of the consultation document refers to the "significant market value attached to the use of (local commercial radio's) broadcast spectrum" suggesting that this merits auctions or price increases. Such an approach would have nothing to do with "providing incentives over the long term towards efficient (spectrum) use" (paragraph 24) so in this instance the consultation document focuses "on maximising proceeds to the Exchequer" despite the statement in paragraph 7 that this is not the case.

We strongly advise against any form of local commercial radio auction unless all format restrictions are removed. This would allow a free market but would be unlikely to increase listening choice. A number of niche stations would be likely to disappear. The UK commercial radio sector would be destabilised at a time of declining revenues and increasing investment in digital radio. The outcome would thus be counter to current Government policy and our recommendations in advance of the recent Communications White Paper.

Radio spectrum auctions, which have taken place in the US (for digital), Australia and Sweden, have been most extensively applied in New Zealand. Crucially, this process, which occurred in 1991, was accompanied by a total deregulation of ownership and content.

A similar move in the UK would reduce operators' ability to invest in programming and would discourage new independent players from entering the market. Furthermore, we suggest that early evidence from the aftermath of the 3G auction shows that serious damage can been done. We estimate that telecomms industry will take some time to recover and its instability will continue to adversely affect the wider economy.

The review suggests that encouraging migration from analogue to digital (which is more spectrum efficient) might require financial incentives. It seems to us that these would consist of either pricing analogue to dissuade people from staying, or subsidising digital to persuade people to move.

The first of these, increasing the price of analogue, is fraught with danger, especially in an industry as diverse as commercial radio. Of the 245 local services (including both those on AM & FM) which the Radio Authority licenses, 109 serve communities (that is, have Measured Coverage Areas or MCAs) of less than 300,000 people. Whilst these stations may not be those

which make the headlines nationally, or in London, they provide critical services to their communities. They include Spire FM in Salisbury, Mix 96 in Aylesbury, Alpha 103.2 in Darlington and Central FM in Falkirk. We have examined their transmission costs in detail and we believe they give an accurate picture of the costs faced by others. For these stations, commercial survival depends upon the ability to keep costs low. Current transmission costs (including WTA fees) typically vary between £4,000 and £16,000 per annum. For these small stations, a move to digital radio (where a multiplex space is likely to be in the region of £60,000) is cost prohibitive. Add increased analogue pricing to the mix, and these small stations would be unable to afford to stay on FM whilst being similarly unable to afford a move to digital.

Additionally, given that the spectrum used by analogue radio broadcasting is generally accepted to be unappealing to new technologies, and would therefore have limited alternative uses, levying charges for analogue broadcasting would be seen as an unnecessary tax on an industry which is not only suffering its worst advertising downturn for 10 years (with no end yet in sight), but is also investing several million pounds each year into digital broadcasting.

The second financial incentive which could be used to encourage migration to digital is subsidising the costs of digital broadcasting. In the past, we have suggested the allocation for this purpose of some of the bid fees paid to the Treasury by national commercial stations. This has received an unenthusiastic response. Now we additionally suggest that a useful incentive would be a reduction (or suspension) of Wireless Telegraphy Act fees for companies investing in digital broadcasting.

What incentives might be introduced, consistent with wider broadcasting policy and the Government's approach to the funding of the BBC and its public service remit, to encourage greater spectrum efficiency by the BBC?

BBC radio duplicates its output on different wavebands and broadcasts each of its FM national services on a number of overlapping frequencies so that they are often available at a number of different points on the dial in the same geographical location. This is allegedly to enable universal availability of publicly funded radio services. So far, this has been judged by Government to be in the public interest despite the spectrum profligacy that it encourages and the availability of BBC national services via satellite and the internet as well as via terrestrial transmissions.

The national commercial FM (Classic FM) on the other hand has slightly less spectrum to use than BBC national FM services (2 MHz rather than 2.2 MHz). Despite this, and unlike the BBC, the spectrum is used to provide other local commercial radio services as well as Classic FM.

CRCA believes that the BBC is now unjustifiably large. Playing upon fears that public service broadcasting will expire without it, it has become a vast and generously publicly-funded colossus that limits and seeks to crush if at all possible any commercial broadcasting competition. There is no justification for a publicly-funded, self-regulated, cross-media monolith of this size in any modern media environment. Its sheer size emasculates nascent commercial competition particularly when, as in the UK, the latter is largely limited to single medium enterprise and is independently and over-regulated. The BBC does not need to broadcast either the number of services it currently does or those it currently plans to add. Its duplication of commercial services represents inefficient use of the spectrum.

The commercial radio industry would therefore welcome any methods that encouraged more efficient use of spectrum by the BBC. These could include

- bringing the BBC under the umbrella of the new communications regulator, OFCOM, to ensure that its use of spectrum was subject to similar rules and conditions as commercial radio's
- providing a financial disincentive for simulcasting on different wavebands
- providing a financial disincentive for duplication of services already being provided by the commercial sector

A further incentive for efficient spectrum use by the BBC could have the dual purpose of assisting with the Access Radio project, an initiative which currently finds favour in many quarters. Rather than simulcasting its national services on local stations during off-peak hours, as happens at present, these frequencies could be turned over to Access Radio groups whose volunteers may be able to devote time to broadcasting at precisely the times when output duplication is taking place.

CRCA
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