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Daniel Storey,
Radio Spectrum Management Review
Radiocommunications Agency
Wyndham House
189 Marsh Wall
LONDON
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14th August 2001

Dear Mr. Storey,

I write in response to the Radio Spectrum Review consultation paper published in June 2001. Our trade body, the Commercial Radio Companies Association, has produced a full and detailed response to the paper: this letter supports that response. It amplifies certain points from the point of view of the UK's largest commercial radio company in terms of licences and listening: GWR Group, as the owner of Classic FM, is also one of the few companies to have experienced spectrum pricing through an auction process.

I will deal with our points under the relevant questions posed in the paper.

1 - Factors affecting use of radio spectrum by the broadcasting sector. We support the points made in the CRCA response, especially the references to the 41%/59% spectrum split (in favour of the BBC) resulting in a 46%/54% distribution of audience share, and the highlighting of the BBC's waste of spectrum in broadcasting the same services on FM, AM and digital radio. All of GWR Group's services are frequency-specific, with listeners offered distinct choices on FM and AM in each area where the Group holds licences on both frequencies. In the developing digital radio market, listener choice is also maximised, with stations offering added-value content on their digital output, such as GWR Bristol's initiative of broadcasting a live concert on digital radio whilst the FM sister channel carried highlights to encourage listeners to migrate from analogue to digital.

The consultation paper refers to an overarching principle that all spectrum users should face some form of price reflecting the opportunity cost of their spectrum use. Classic FM, with its licence awarded on the basis of a sealed-bid auction, is perhaps the clearest example of this, although all commercial radio stations pay for their licences through Radio Authority and WTA licence fees, in addition to the content commitments which are part of their licences.

It is instructive to recall the process which led to Classic FM going on air in 1992. Following the 1990 Broadcasting Act, the Radio Authority advertised the national FM licence in a sealed-bid auction. There were three bidders, proposing three different programme styles and offering very different sums for the licence - in a ratio of 4:2:1.

The highest bidder proposed a service of music from stage shows and musicals, and offered £1.2 million per annum for the licence. Classic FM was the second bidder at £600,000, and a service offering melodic, easy listening music was third at £300,000. The highest bidder could not confirm its finance, the licence was offered to Classic FM and the station launched with 4.2 million listeners, an audience which has now grown to 6.3 million.

Classic FM is now in its second 8 year licence period, following a negotiated renewal linked to the station's commitment to digital radio. The licence fee is now a cash sum of £1 million per annum, plus 14% of the station's advertising revenue: in 2000 this amounted to £4.9 million, to which the Radio Authority licence of £494,000 must be added. So Classic FM paid £5.4 million for the right to broadcast in 2000, a figure which will increase as revenues improve and the index-linked cash sum increases.

The wide variation in the initial bids for the national commercial radio licence demonstrate the extreme difficulty of pricing spectrum. Equally wide is the variation in programme styles, demonstrating the difficulty of guaranteeing public service output if income to the Exchequer is the key objective. The showtime music and easy listening stations may have been popular had they been awarded the licence, but it is extremely doubtful that they would have contributed as much to the musical culture of the country as Classic FM does.

In calculating spectrum "value", the non-monetary contribution of broadcasting to the public good must be assessed alongside cash income.

2 - Spectrum Efficiency

In providing a social good in a spectrum-efficient manner, the one-to-many nature of broadcasting has a clear advantage over one-to-one telecommunications. In the provision of information, generating a sense of local pride and encouraging an interest in classical music, GWR's stations contribute to a large number of the Government's social and cultural objectives.

In technical terms, the CRCA submission details the conclusions of the analysis of spectrum planning in Leeds/Bradford and London - in this study, the existing system was found to be highly efficient.

Spectrum efficiency is maximised when broadcast use allows many consumers to benefit from a specific section of spectrum.

3 - Further incentives

The report referred to above found a highly efficient spectrum allocation system already in place. Therefore further incentives would have little effect in increasing the efficiency of spectrum use.

The CRCA submission emphasises the likely economic effects of increasing the price of commercial radio spectrum, whether digital or analogue. In the midst of an advertising recession, any change will further destabilise the industry, but even in more prosperous times any pricing changes would be difficult for stations - any increase in the cost of transmission puts pressure on other areas of expenditure, with investment in programmes likely to suffer. Digital radio is already increasing transmission costs, so any reduction in that field - through use of the bid fees paid by the national commercial stations, for example - would be an incentive to the industry.

If spectrum pricing auctions are to be considered, they must be for new licences only (to allow business plans to be written to accommodate the bid cost) and the licences must be free of all format restrictions, to allow audience to be maximised.

Auctioned licences imply commercial freedom, so format restrictions cannot apply.

4 - The BBC

The CRCA submission makes the case for change in the way the BBC uses its spectrum. Classic FM achieves nationwide coverage with 2MHz of spectrum, and finds space within that for other local and regional commercial services. The BBC uses 2.2MHz for each of its networks, and does not accommodate any other services within that allocation.

The BBC should be brought into a single regulatory body with commercial broadcasting to ensure that its use of spectrum is efficient and proportional to the public benefits gained.

Conclusion

GWR Group welcomes the opportunity to contribute to the debate over spectrum management. This response, read in conjunction with the CRCA response, demonstrates that commercial radio:

- Uses spectrum in an efficient manner
- Pays a fair and increasing price for its use of spectrum, and
- Provides significant public service benefits at no cost to the listener

If you have any questions, please don't hesitate to contact me.

I look forward to the next stage of the Review process.

Yours sincerely,

Simon Cooper

Group Public Affairs Director