

## **Arqiva response to Ofcom consultation on The Future of Radio**

### **About Arqiva**

Arqiva has a 50-year history in transmission and has helped pioneer the technologies of the digital age. Formerly the broadcast division of ntl Group, Arqiva was purchased in 2005 by an international consortium led by Macquarie Communications Infrastructure Group.

Arqiva is responsible for the entire analogue transmission networks for ITV1, Channel 4 and five and has played a leading role in the introduction of digital terrestrial television, for which Arqiva has built the national networks carrying the Digital 3 & 4 and SDN multiplexes. The network for Digital 3 & 4, with its regional structure, is one of the most complex digital terrestrial TV networks in the world.

Arqiva owns and operates some 350 FM and 70 MF transmitters, with customers ranging from the large radio groups such as GCap Media, EMAP, Chrysalis, GMG Radio and UTV Radio, to small community-based stations, and has played a leading role in the development and introduction of digital radio in the UK, supporting the commercial radio industry in making the transition from analogue. Arqiva built the transmission network for Digital One, the national commercial DAB multiplex, and has multiplexing and transmission contracts for 42 of the 46 local and regional DAB multiplexes.

All of the above activities are underpinned by Arqiva's Spectrum Planning Group which has extensive experience of planning analogue and digital TV and radio networks and which also offers a coverage prediction service for Arqiva's radiocommunications customers.

### **Introduction**

We are pleased to be able to comment on Ofcom's consultation document, The Future of Radio and to have the opportunity to influence the continued development of a healthy radio market in the UK.

We applaud many of the moves made by Ofcom since its inception and particularly the decision to licence additional DAB spectrum in order to deliver more diverse services at both national and local levels and to lower the barriers for local and regional stations, whether BBC or commercial, to adding a digital service<sup>1</sup>.

As a core provider of transmission infrastructure to both commercial and public service sectors of the radio industry, Arqiva is becoming increasingly aware of the difficulties being faced by the commercial sector due particularly to competition from other delivery media. Increased competition as a result of technological innovation is a fact of life and Arqiva is confident that commercial radio will respond to the threat and take advantage of the new opportunities to remain relevant to consumers.

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<sup>1</sup> Until such time as DRM is established in the UK, DAB will offer broadcasters, consumers and advertisers the only transition path to digital radio.

However in the transition to a world in which radio is just one audio delivery mechanism amongst many, it is essential that the regulatory burden on commercial stations reflects the changing relative importance of radio, both to consumers and to advertisers.

Ofcom needs to be mindful that commercial radio is a business and that regulation should primarily be geared to enabling the innovation and diversity necessary to keep the industry's head above water rather than acting as a limiting factor which could allow it to become swamped by its unregulated competition. Ensuring that regulation of radio is appropriate, and remains so, for such a dynamic market will present a challenge to Ofcom, but one which must be met. This may require Ofcom to become an advocate of change to Government and Parliament on behalf of the radio industry.

## **Answers to specific questions**

### Proposal 1

*The regulation of content on analogue commercial radio and on DAB digital radio should be aligned, at the appropriate time.*

There is no doubt that the current structure of commercial and public service radio provides a wide range of content to the listener and that this has been achieved through careful and sensitive regulation over a number of years. That said, the face of radio broadcasting has changed in recent years and will continue to evolve more quickly in the future.

There are many challenges facing radio broadcasters and these have been increased in recent years through new forms of delivery. Many of these new delivery media are subject to much less regulation than a typical AM or FM local licensee but we note that most of these alternatives do not provide the level of localness that listeners currently enjoy.

As DAB gains more listeners, the regulation that has hitherto provided the local content on FM and AM should be transferred, provided that research indicates consumer support, to the stations providing local programmes on DAB; however this must be achieved through clear but flexible arrangements that allow formats to be evolved and coverage areas to be flexed. The end goal for broadcasters and Ofcom alike is to attract the greatest number of listeners; providing the broadcasters with more flexibility will allow them to respond to competition and maximise their revenues without jeopardising the delivery of local content.

We would encourage Ofcom to begin exerting a lighter touch on the existing AM and FM licensees at the earliest possible stage and ask that consideration be given to starting this process before the 33% threshold is reached.

## Proposal 2

*There may be a case for Government to consider bringing together the ownership rules regarding analogue commercial radio and DAB digital radio into a single set of rules as the proportion of listening accounted for by digital platforms increases.*

We support the notion that there should be diversity of station ownership within any particular market and that this should be enforced through legislation that prevents any one individual or group from dominating the airwaves. These principles have been applied to DAB and AM/FM, however we believe that any transition to a single set of ownership rules should not disrupt the balance that currently exists and should assume that there will be an all-digital future in the medium term.

## Proposal 3

*While we do not currently propose that a date should be set for the switch-off of analogue (FM and AM) radio, we should aim to maximise flexibility in the licensing system so as to be able to free-up that spectrum for other uses, when the time is right.*

Arqiva strongly believes that radio is in transition to an all-digital future. However this transition is still at an early stage and we therefore agree that DAB penetration is still some way short of a point which might allow a firm date for the switch-off of analogue services to be set. But we do believe that it would be possible for Ofcom to acknowledge that the eventual transfer to digital would be desirable and thus ensure that regulation and technology are brought into line in readiness. We believe that the primary drivers for switch-off of analogue radio should be the desire to enhance the listening experience through enhanced services such as slide-show and electronic programme guides together with the ability to deliver a wider choice for the listener.

In setting any future switch-off date, Ofcom should lean heavily towards protecting the interests of the listeners and radio industry. Whilst it might be desirable to free-up vacated spectrum in blocks to maximise flexibility in regulatory planning and scope for intervention, Ofcom must not jeopardise the ability of commercial broadcasters and their suppliers to continue their businesses. In particular, the proposal to introduce a notice period of two years would restrict the ability of stakeholders to raise funds for investment in infrastructure or marketing and would represent a significant destabilising influence on an industry in transition.

The potential impact of the significant uncertainty which could be created by the proposed extensions and rolling licenses, not least while the industry is still in the process of adapting to rapid change in its competitive environment, requires further consideration and discussion with industry. Consequently Arqiva believes that the case for these interesting proposals has not yet been made.

We support Ofcom's proposal to allow increases in the areas of existing DAB local multiplex licences where such increases would not be significant, and to approve significant increases in exceptional circumstances.

#### Proposal 4

*Radio services, including those designed to deliver public purposes, should be able to be licensed on any spectrum in a technology neutral way.*

In principle, Arqiva supports technology neutrality. Radio's ability to compete for consumers' attention and advertisers' investment should not be constrained by prescribed technology. Arqiva also supports market mechanisms as the starting point for the allocation of unused or under-used spectrum.

It may be practical for radio to transition to a future of co-existence similar to that which Freeview faces where the existing Freeview multiplexes will continue, post digital switchover, to be licensed with technology prescriptions and to utilise spectrum which was not purchased at an auction, while any new Freeview multiplexes will not require licences, thus being free to adopt technology which best serves their business models, but will utilise spectrum purchased in an auction or secondary market.

However any transition from the current "command and control" determination of radio provision, which is the basic model the world over, to a market approach would need to be measured:

- To minimise uncertainty for consumers, advertisers and manufacturers (as with television receivers and cellular 'phones, radio receivers will not be manufactured specifically to meet UK-only specifications).
- To ensure that a clear means of dealing with interference (including into and from neighbouring countries) from the use of different technologies in adjacent spectrum is in place.

Arqiva would suggest that Ofcom consult with industry specifically on how a transition to market-based allocation of tradable spectrum, licensed on a technology-neutral basis, might be implemented for the delivery of radio services. Such a consultation should not take place until Ofcom has progressed further with its spectrum awards programme, so that the implications for delivery of other services could be assessed when drawing up proposals for the radio industry.

#### Proposal 5

*Ofcom will generally approve a change from stereo to mono in circumstances when it considers that the reduction in sound quality of the service whose technical parameters is being changed is outweighed by the benefits to citizens and consumers of the use to which the freed-up capacity is to be put.*

Arqiva welcomes the results of Ofcom's research into listener perceptions of DAB audio quality which are in line with listening tests we have carried out with our customers. There is still the potential to make further improvements in DAB audio quality whilst reducing bit-rates to allow greater choice on DAB multiplexes that are currently full and we are working with the industry to achieve these gains. It is vitally

important that Ofcom enables its licensees to achieve the correct balance of choice and quality and we welcome the extra flexibility proposed.

However Arqiva does not believe that Ofcom should be so dismissive of the potential benefits of permitting multiplex operators to implement DAB+. While we agree that DAB+ is more likely to lead to an increase in the number of services than increased audio quality, we would expect the increased spectrum efficiency to be reflected in lower carriage costs, thus reducing the barriers to entry which are considerable for many commercial stations.

Arqiva also believes that Ofcom has underestimated consumers and painted an unnecessarily gloomy picture of confusion following any announcement on DAB+. Certainly if Ofcom were to announce a migration plan for all existing multiplexes that might indeed stall purchases of DAB receivers. But if Ofcom permitted the new national commercial multiplex to implement DAB+, this would not in itself remove any services from consumers and would provide an incentive for consumers to upgrade or future proof their next DAB radio (once a consumer has one DAB radio, they invariably buy another one) - to the extent that the operator of that multiplex chose to implement DAB+ and the relevant services were attractive.

As other countries come to launch DAB networks they are likely to do so using DAB+, and manufacturers will respond by launching new receivers capable of decoding both MP2 and DAB+. These new models will then appear in UK shops.

If Ofcom defers permitting DAB+ for several years as proposed, this will lock in the UK's "first mover disadvantage" and, as dual mode radios were increasingly purchased by UK consumers, those consumers would be unable to take advantage of all of the technology which they had paid for.

Further if Ofcom were to maintain "radio silence" on DAB+ for fear of scaring consumers, then most consumers purchasing dual mode receivers would do so in ignorance – just as those who did not future proof their next radio would have failed to do so in ignorance of the choice available to them. Arqiva would suggest that that in itself may generate consumer confusion and resentment when Ofcom finally determines that the UK can catch up with other countries.

### Proposal 6

*The characteristics of community radio, based around social gain provided by stations on a not-for-profit basis remain key. However, there may be an argument for simplifying the statutory selection criteria, and the regulation of funding and ownership without losing the essence of what community radio has been set up to achieve.*

The introduction of community radio has been most encouraging and the new stations are now beginning to provide additional choice to listeners. We note Ofcom's initial thoughts on simplifying the statutory framework and await the final recommendations later this year

## Summary

Whilst listeners are tuning into radio broadcasts in ever increasing numbers, many commercial broadcasters are suffering due to the impact of unregulated competition from stations on Freeview, Digital Satellite and the Internet. Ofcom's own data detailed in *The Future of Radio* suggests that at least 40% of stations lose money and this figure is likely to get worse. Ofcom must take urgent action to allow licensees the flexibility to adapt their formats to track public demand in order to ensure that the commercial radio industry remains sustainable.

The penetration of DAB receivers is not yet at a point where we could contemplate the switch-off of analogue broadcasts however there is much planning that could be started to map-out an all digital future. A commitment to such a process would encourage research and trials into other digital platforms such as DRM that could be capable of providing solutions for smaller licensed areas. An Ofcom-led, cross-industry forum could make significant progress ahead of the proposed reviews of AM and FM licensing policy in 2009 and 2012, enabling the industry the time needed to ready itself for the changes.