

The Committee Secretary - Inquiry Into The Radio Industry
House of Representatives Communications Committee
Parliament House
Canberra ACT 2600



Thursday, 9 November 2000

Dear Ms Holmes,

SUN FM - Adequacy of Radio Services in Non-Metropolitan Australia

Following our submission to the inquiry dated Thursday, 26 October 2000, we've been provided with a copy of the National Party submission to the inquiry, which we would like to respond to.

We share most of the concerns raised in that submission, particularly in regard to the loss of localism, employment and the creation of 'super hubs'. We would like to clarify the difference between SUN FM networking and radio networking discussed in the National Party submission and importantly, discuss the reasons behind regional/rural commercial radio taking the path it has over the past decade. This discussion is limited to commercial radio.

SUN FM Networking Philosophy

When launched over the past four years, SUN FM stations filled a local void in Beaudesert Shire (South Brisbane), the Western Downs and Southern Downs. In all cases, there was existing signal coverage available from neighboring commercial stations through most of the market, but nothing local.

SUN FM realised that it had to employ hub networking of some kind in order to provide a locally relevant service to these three discrete markets. Our aims and ideology in utilising hub networking are a world apart from those of the bigger networks, that have reduced localism and increased networking for commercial gain in some markets and for commercial survival in other markets where increased competition has forced a reduction in localism.

In most other radio networking a common satellite feed is fed from a hub to all regional stations, so the announcer is heard in common across all stations receiving the network feed, limiting what the hub announcer can talk about to items of a generic nature with localism only occurring in set length local windows, provided from a local computer audio system usually for advertising content and weather forecasts.

Under this system, there is no provision for the program announcer based at the hub to talk about local events relevant to the local market. In the case of some networks, the so called 'hub generic' announcers make it very clear that they are not local, for example by referring to 'all the rain we've had lately'. I've heard this on small network regional stations where the local farming community is desperate for rain. Mispronunciations of town/river names in



'local break windows', even in pre-recorded advertising occur. Chances are the announcer has never actually been to that station or town and may never go there.

SUN FM was in the situation where we had to introduce a service into a new small market viably. These were very small markets that had never been served before by local radio and had in the past, been written off as 'unviable' areas to provide a relay service to, let alone a local service that still had to compete with signal coverage from neighboring markets.

Nowhere is that more apparent than in Beaudesert Shire, South Brisbane, where the SUN FM coverage area is completely encircled by commercial grade reception of Brisbane 4KQ. Most industry owners/observers didn't think SUN FM would survive six months, but despite ABA imposed signal coverage deficiencies, it has so far.

We were looking for an operational model that was an acceptable trade off between the costs of full live localism and the heavy restrictions imposed by the growing trend of super hub networking. We knew that 'super hub' networking was the cheapest form of providing a service, particularly as we added more SUN FM regional stations, but at what cost to localism?

In our case the solution is what we refer to as Star Hub networking. It is closer in design to the way that aggregated regional TV markets provide their service to different regions from one location, than it is to radio networking common to regional radio today.

As a Star Hub, individual feeds (as opposed to one feed with local inserts) are fed from Beaudesert to each SUN FM station. The announcers are 'local' for each market right across the day and are fed via Telstra ISDN digital audio links to each region. The distribution costs are higher than satellite, the staff resources are higher and we had the added cost of developing in house automation software that was required to meet our localism requirements.

But the benefits are substantial. Our announcers are free, in fact are required, to announce content unique to the localism needs of each market. This allows total freedom for local content when required. We are not limited to fixed length local windows, as one station could be doing live location crosses from a local festival, while another is broadcasting an interview with the local Mayor. Each region has its own sports show on Saturday morning, carrying interviews with local sporting clubs. We are not restricted to a 'set length window' prerecorded weather forecast. If one station needs a brief 15 second weather check, while another needs a longer forecast to cover storm warnings and river heights, that's what happens. We have the ability to tailor each service to reflect the unique nature and needs of each market.

Our employees in SUN FM regional offices are actively community involved and liaise closely with announcers at our base to ensure they're up to date with local events, from a local perspective. It is a condition of employment with SUN FM that all our base announcers visit each region regularly to meet local people, participate in local events and SUN FM outside (on location) broadcasts.

Keep in mind these are not large towns we serve, which cannot support a 'traditional' local commercial station. Today SUN FM dominates ratings in each market and the communities highly value 'their' SUN FM station and support SUN FM for doing what no other operator was prepared to do.

Networking in itself is not a negative occurrence, what is important is what type of networking it is, the balance between network product/localism and the ideology of the service provider.

To be fair to DMG & R G Capital, there has been some benefits of large scale satellite networking. The centralising of operations in a 'super hub' has allowed specialist staff resource pools to be put in place. For example copy writing teams and production teams. The location of the 'super hubs' in large regional centres has enhanced the ability of these companies to attract and train some of the best people in the industry, which has enhanced the overall quality of services that are networked through to the smaller regional services.

In areas where aspects of commercial radio had suffered from ownership fragmentation, there have been consolidation benefits, particularly in the areas of specialist staff training, market research, promotion and advertising sales.

The Loss Of Localism

There are arguably some smaller markets where increased networking was inevitable, where the ABA has licensed a competing station for the first time, fragmenting market revenue and increasing the incumbents promotional costs forced by true competition. If revenue substantially falls for a station, localism is inevitably one of the first things to suffer.

It is ironical, if not a direct conflict of the objects of the BSA when licencing new services, that the ABA on one hand aims for diversity, competition and coverage of local matters, while on the other it can not take into account the viability of an existing service, which may be providing commendable local content.

Looking back ten years, it was a very different landscape for regional commercial radio. The commercial radio industry was regulated by the former Australian Broadcasting Tribunal (ABT) and governed by the old act (Broadcasting Act 1942).

Under the old act, licence renewal was not automatic and a licensee had to earn its licence renewal. The ABT reviewed the achievements of a broadcaster, particularly in relation to community involvement and localism levels. It held the power to place a licence condition on a broadcaster to say, employ at least one local journalist and the ABT used that power on occasions.

There were restrictions on the number of commercial radio licenses one company could hold and minimal levels of foreign ownership permitted.

As such, a large percentage of regional radio stations were locally owned. Where networks existed in regional markets, they were small and for commercial reasons, usually restricted to one region of Australia.

This provided for an ownership environment where station directors often lived in the community served by the radio station, or in the case of size limited networks, where senior management had the time to personally oversee the running of each station in the network with regular visits. There was a close working relationship between management and the communities served by regional radio stations.

Most of us in the industry would agree that the old act was unwieldy and we welcomed the more open structure and greater self regulation promised by the BSA.

The transition from the old act to the BSA, took the consideration of localism from one extreme to another. Under the old act, the ABT had to have regard to localism and the viability of existing services when granting new licenses in a market, to the extent that many markets that could easily sustain an additional station, were subject to unnecessarily lengthy ABT licence grant delays by the complex merit based licencing process and subsequent legal appeals.

While the BSA promotes the coverage of 'local matters of significance', there is no requirement or incentive for an operator to provide any. Today, a regional radio station may be a 100% 24 hour relay of an interstate radio station and the ABA has little power to act. When licencing new services in a market, or considering the effects of overspill from a neighboring market, the ABA has little regard for the effects on viability, localism and employment in existing stations.

While regional commercial radio is under scrutiny from this inquiry, to be fair to the industry, it is the BSA that came into effect eight years ago that has provided the framework for what is regional commercial radio today. Large operators have simply moved to capitalise on what is permitted by the BSA, sometimes at the expense of localism.

The increasing cost effectiveness and advances in networking technology is not to blame, it is a tool that can be used to enhance localism and program quality just as easily as it can be used to cut costs and cut localism.

The BSA is the main culprit as it set the new framework.

It can also be said the ABA could have read more into its role in relation to broadcasters covering 'local matters of significance', which suggests to us that viability of existing broadcasters providing local content must be considered by the ABA when licencing new services. The ABA has made it clear that it cannot directly consider the viability of an existing broadcaster. But if a broadcaster's market is eroded substantially by a new entrant, to the point where it has no choice but to cut most localism to survive, then most of the value of that broadcasters role in the local community is lost. If the market is saturated to the point that no commercial broadcaster can afford high levels of local content than what has been achieved? A greater choice of 'network fed' radio services at the expense of true localism. How does that foster the object of the BSA to encourage broadcasters covering 'local matters of significance' ?

Since the introduction of the BSA and the relaxation of ownership limits, predictably and progressively ownership has become more consolidated and large networks have been formed, with over 80% of regional/rural commercial radio stations now in the hands of a few owners. The largest of which is foreign owned DMG, with over 55 stations in its group spread across Australia. This trend will probably continue until eventually there are two main regional owners and independents are long forgotten.

Chances are one of the larger shareholders in DMG wouldn't know if they owned 4ZR/HOT FM Roma without checking the companies portfolio, let alone know where Roma was in

Australia. Is there localism on HOT FM Roma, or did they know it is on 100% relay from a Townsville satellite feed that simultaneously 100% relays to Emerald & Charters Towers too?

If foreign owned networks are allowed to own two commercial radio stations in every market in Australia and the BSA has no enforceable requirements for localism, it is no surprise that localism has suffered, particularly in regional duopoly markets.

We are not directly criticising any single large regional network. While we generally do not share their corporate philosophies, they are merely maximising their investment in regional radio within the scope of the BSA.

The question is whether the damage is reversible given eight years of the BSA. Short of forcing divestiture, its probably not. In most markets, licencing new competing services, even assuming there was spectrum available is likely to make the situation worse. Therefore the onus is on the existing operators to ensure they treat their privileged and protected market position with due respect, or be forced by regulation to do it.

As the large radio networks buy more independent licenses, the problem becomes more entrenched. The trend of sale of independent stations to the large networks is because other independents are forced out of the bidding war. When we do our sums on a potential purchase, it reflects our desire to structure every station we own to be proud of the level of localism in its service. Some of the large networks however, pay high purchase prices and then cut localism and costs to justify the purchase price.

When you reflect on the prices paid for purchasing existing stations or new licenses at auction, it is clear that to generate an adequate commercial return that the large networks have to run those stations at a much lower cost than an independent operator, and networking is where they start. Considering the purchase price of their assets, they have a business model that is geared to low cost networking and they operate under ideal broadcasting legislation that has allowed it to take a stranglehold on regional radio today.

How can DMG afford to pay \$155m for a new Sydney licence, if the new Sydney station is not set to become the 'Mother Hub' to their 'Super Hubs' and where does that leave localism in their regional markets?

Today there are precious few independent operators left in Australia and here in southern Queensland there are great examples of radio stations that still are committed to localism. SUN FM (South Brisbane, Western Downs and Southern Downs), 4LG/WEST FM Longreach and 4VL/4CCC FM Charleville are all independent stations that, with the exception of state news & the John Laws show, still provide local programming right across the day. It's worth noting these stations are the smallest radio markets (in commercial terms) in Queensland and some of the smallest in Australia.

I would be surprised if any concerns about localism stem from listeners in those markets where their signal can be received. If those small stations, although not all are viable, are pouring resources into localism, then the larger operators clearly have the resources (dependant on servicing their purchase price debt), but not the incentive to do so.

Employment is also an area where the BSA has no force. Traditionally the smaller regional stations have been training grounds for staff who hone their skills and move on to larger radio

stations. Most of the smaller regional stations that belong to a large network have cut back staff, particularly in announcing positions. This has had an effect on the industry as a whole, as the small regional market training ground is not the size it used to be and in the long term, may disappear altogether.

Competition & Localism

In monopoly/duopoly markets, it is up to one operator to decide how much localism to provide to the market they control. If an operator provides less than it should, there is nothing to force a change. Unless, by amending the BSA, the ABA is given the power to enforce local content, it is difficult to see how this will change. Although we would support such a change, we are wary of any powers given to the ABA in this area, in so far as any ABA directive impacts negatively on the ability of a licensee to generate a fair commercial return on its investment. Our preference is for self regulation and the development of localism codes of practice, with the ABA given the power, on a case by case basis, to enforce licence conditions on stations that do not comply.

The BSA should be amended to ensure the ABA, when licencing new services, has regard to an incumbent stations financial ability to continue providing localism

In larger regional markets, where there are at least three commercial stations, under the 'two in a market' rule there is diversity of ownership. As such, competitive forces will ensure that localism, within the constraints of market fragmentation, is likely to be a key element of successful programming in a truly competitive situation.

Our concern relates to markets where the level of this competition is questionable.

For example, in Townsville where there are four stations, two owned by DMG, two owned by R G Capital, there is healthy competition. Both companies operate from separate buildings with completely independent staff.

This is not the case in some DMG markets. For example, in Port Macquarie, DMG used to own one AM and one FM station in a duopoly market. The ABA auctioned off a second FM licence in the market which was bought by DMG. Under the BSA, DMG had to divest one of their licenses. AMI bought the AM station from DMG and relayed in a highly networked niche easy listening format from 2CH Sydney.

This exercise is similar to what has happened in many other markets involving DMG as the duopoly incumbent and AMI as the party to move in and buy the third station from DMG following an ABA licence auction. Markets where there are now only two DMG stations and one AMI station include Orange, Mildura, Port Macquarie and Coffs Harbour.

What is unusual about the DMG/AMI relationship in some cases, is the level of true competition between these companies. As a result of the DMG/AMI relationship, the ABA moved to ascertain what level of resources can be shared between competing stations in the same market before they are deemed to be in breach of ownership and control provisions of the BSA.

We do not concur with the ABA's ruling. The result of the ABA's finding is that it is acceptable for multiple stations under separate ownership to share the same building, offices, studios and staff, as long as they are not key personnel.

As soon as any staff and/or building are shared (excluding transmission site facilities & engineer), we do not see how true competition can exist. If you work in the same part of a building and interact on a daily basis with shared staff, it would be nearly impossible to generate an atmosphere or environment of direct competition.

If there is no true spirit of competition, then this is not pushing program standards, program format choices and local content in the same way as Townsville is being driven. It is also curious to note that upon the forced sale of AM stations by DMG they have only ever been bought by AMI.

Again, this is not critical of DMG or AMI as the ABA set the ruling. It is our view that only transmission site facilities (and RF engineers) should be shared by competing licensees in the interests of true competition.

Digital Radio

There are exciting prospects for enhancing localism through digital radio, particularly with respect to the data and interactive capabilities of DAB, although its effects will not be felt for many years until receiver penetration approaches that of analog.

Although there has been no firm decision on which digital standard to adopt, we have concerns that the currently favored Eureka 147 system may not meet the needs of rural Australia. Should this system be adopted, it is not at all clear how remote rural communities will be served by DAB.

In isolated rural areas, many existing commercial AM services have a large coverage area, with their signal often traveling over 200 kilometres. In contrast, many of the licensed FM stations in rural areas fail to match the coverage of their AM counterpart, due to the limitations of FM travel, leaving listeners on the outskirts of licence areas without access to commercial FM.

If Eureka 147 is adopted for terrestrial broadcasting with a propagation reach struggling to match FM, and eventually analog AM stations shut down at the end of a DAB simulcast period, some rural listeners face the prospect of losing access to their only local radio station they could receive.

Although the Eureka 147 system was developed to encompass satellite broadcasting, it is not highly efficient and therefore unlikely to be adopted by broadcasters seeking to provide a service to isolated rural areas.

While it may be desirable that Australia adopt a single standard and there would only be a very small percentage of Australians effected by a decision to adopt Eureka 147, we suggest this sector of the community is carefully considered in adopting any given standard. Australia would be better waiting to see which of the current DAB systems in development matures to dominate receiver sales overseas and is capable of providing long range terrestrial coverage before allowing regular DAB transmissions to begin.

Regional broadcasters in small markets face substantial costs in converting to DAB for minimal short to medium term gain. It is important that these broadcasters are not forced into adopting DAB at an early stage, stretching resources, when there is low receiver penetration.

While DAB offers many exciting capabilities which will enhance the service a licensee can provide, the value of its implementation for broadcasters in Metropolitan areas, particularly those on AM, is initially much higher than for small regional broadcasters.

Recommendations:

- That ownership and control provisions of the BSA be reviewed with respect to;
 - Foreign Ownership
 - Number of licenses that can be held by one owner.
- The Minister requests the ABA review its decision on resource sharing between competing owners with a view to ensuring that true competition is not sacrificed.
- The BSA be amended and the ABA be given the power to enforce, where necessary, minimum local content standards, while having regard to the viability of the service and, simultaneously;
- The BSA be amended to ensure the ABA has regard to the ability of a market and/or individual licensees capability to sustain local content as a prerequisite to licencing any competing new services.
- The ABA liaise closely with individual licensees in setting a commencement date for DAB.

Regards



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