

# **FARB SUBMISSION ON “CONVERGENCE REVIEW ISSUES PAPER”**

## **Introduction**

FARB welcomes the opportunity to respond to the *Convergence Issues Paper* and in doing so has stressed three main issues:

- Resulting legislation will need to ensure that radio can compete on a “level playing field” with other technologies and have the flexibility to provide a wide range of services;
- In the shorter term, radio needs assurances from Government that competitors cannot replicate its services for which it pays considerable licence fees;
- Radio requires access to sufficient spectrum to establish digital services.
- FARB believes the Digital Radio Planning & Steering Committee is the appropriate vehicle for participating in the determination of policy specific to the transition of radio to full convergence.

## **FARB background**

The Federation of Australian Radio Broadcasters Limited (FARB) represents the interests of Australia’s commercial radio broadcasters, several having been in operations since 1925. FARB was established in 1930 with 33 founder Members and has now grown to 221 members nationally representing 98% of commercial radio broadcasting services.

FARB’s policy is determined by the industry membership each year at its Annual General Meeting and within this general policy framework, the Board of Directors of the Federation makes further policy decisions. The Board is elected at the Annual General Meeting and includes the Federation Chairman, the Vice Chairman, the Vice Chairman (Country) and seven Directors.

FARB has a secretariat staff of 13 people in Sydney who pursue a range of matters on behalf of member stations.

## **Context**

FARB’s submission is made in the context of the “Issues Paper” identifying the technological change brought on by the universal trend to digitalisation, together with commercial forces as the twin drivers for “convergence”. FARB agrees that the approach adopted in studying the issues associated with convergence, from the perspective of the inevitable structural changes it will bring about to a diverse range of industries, is a practical and constructive one.

The paper draws out a multiplicity of issues surrounding the question of “convergence” and in particular focuses on the role Government could, or indeed should, play by way of specific policy initiatives related to “convergence” to ensure that the wider “National Outcomes” are fostered, if at all possible.

The Issues Paper of necessity takes a “macro” view, more particularly from the perspective of Government and what it properly sees its role to be, as distinct from a perspective that individual industries now dealing with convergence may deem to be of particular importance. While “National Outcomes” would ideally coincide with the key outcomes desired by particular industries, there are typically varying degrees of difference between the primary objectives of Government and Industry.

The rapid trend towards convergence is creating considerable instability and uncertainty for both Government and Industry – a state that is now very noticeable in the Radio Industry. The Radio Industry has been forced to focus on the role both it and Government should play to ensure that the respective primary objectives of both parties can be satisfied, and the differences accommodated in a manner that causes least difficulty for either party as the industry transitions to convergence.

### **Government Intervention, transition to full convergence and structural change**

The Issues paper focuses considerable attention on the issue of the role Government could play in setting policy that influences the way the transition to full convergence is managed and how the changed industries are to be regulated.

For the commercial radio industry, in particular, this is a critical matter because this industry has always been subject to extensive Government planning and regulation, and there is no evidence to suggest that this situation is about to change. Indeed it could well be that what may be termed by some as the “micro” issues of convergence, will, in the case of commercial radio at least play a major role in shaping the nature and structure of the industry as it emerges from the transition to digital in all its aspects.

Commercial radio’s major concern in the short term is that this regulation does not place it at a disadvantage against other industries competing in the convergence race. Radio requires the freedom to be able to explore the same technological breakthroughs as its competitors to allow it to compete on a level playing field.

In the case of Radio the Government has signaled a major role in the transition to digital platforms and in fact is already well involved in the two areas of critical importance to the future of the industry namely, “content” and “delivery”.

For Radio it is obvious that the nature of its business is the efficient and hopefully profitable delivery of its product, namely “program content”. The scope, and hence potential value of the product, is limited by the capacity of the delivery channel, the geographic/population reach of that channel and any “content” regulation that may be imposed by Government. There are few signs at this stage that Government will dramatically change the current regulations related to content. In any event, for as long as the “capacity” of the delivery channel remains very restricted and the “reach” is strictly determined by Government plans as it is at present, the primary constraints will be capacity and reach related, rather than content regulation related.

For the commercial radio the crucial issue now being faced in the move to “convergence” is delivery channel capacity and potential service reach, and it is precisely on this issue that the Government has almost complete control over the outcome owing to its responsibility for all spectrum related matters.

The issue is further amplified by the fact that spectrum related decisions have a strong bearing on delivery cost and thus the very cost structure of the service is directly influenced by Government Planning decisions related to spectrum use and access. As the value of the content is directly influenced by the channel capacity accessible to the broadcaster, and again because the latter is directly related to spectrum, Government decisions will bear directly on the potential to deliver “services” and hence secure revenue as a result.

### **Structural change and competition**

The issue of the role of Government extends well beyond that already identified. Convergence is about the efficient and cost effective delivery of a wide range of services using electronic means at some or all stages in the process. In addition the trend is towards maximum customer convenience and ubiquity in terms of where and when such services can be accessed. These are the factors driving the system towards greater reliance on wireless delivery.

Radio was the pioneer in this technology and it is still the core feature of the radio business by definition. The fact is, however, that wireless is rapidly becoming the core feature of many businesses, and with convergence many overlaps are now emerging between the radio and a whole set of other businesses. Digital Television can deliver a full range of “radio” services to the home; newer generation cellular wireless services can deliver a substantial sub-set of what was a traditional radio services to portable and mobile terminals, and this ability will be greatly enhanced with the introduction of 3<sup>rd</sup> generation cellular services.

Government has a key role in regulating the content and delivery aspects of other services that will increasingly compete with Radio. It is critical, in the short term, that other services not be permitted to replicate free to air radio broadcasting for which the commercial radio industry has paid dearly for the privilege.

In fact, Government has a major incentive to ensure this is the case because of the potential impact on revenue linked with licensing fees and or sale of spectrum for all types of wireless services. This creates many tensions and conflicts when the issue of “National Outcomes” is dealt with as part of convergence.

The radio industry, as a relatively small player in the very competitive “convergence” arena, is particularly vulnerable under these circumstances. Radio requires certainty that the industry will be enabled by appropriate Government policy, planning decisions and associated regulations to enter the “converged” market place on equitable terms with other sector players and thus be able to continue to offer its services in an efficient and cost effective manner to its vast listening audience.

### **Status of convergence from the radio industry perspective**

From the perspective of the radio industry convergence has already arrived in the form of additional competition from many sources able to take early advantage of the move to digitisation of both the product and its mode of delivery. Indeed radio is itself exploring the convergence path through its “marriage” with the Internet.

The competitive pressure is mounting rapidly and currently there are few encouraging signs that the playing field will be a level one for the radio industry, but to ensure that level playing field the industry must be able to secure access to an appropriate segment of spectrum that provides it with the means and sufficient capacity to deliver an enhanced range of services in digital.

Currently these “micro” convergence issues are within the purview of the Government’s own Digital Radio Planning & Steering Committee, and many of the issues raised in the Review Paper are being canvassed in that forum, as well as directly by the radio industry sectors.

The radio industry is working closely with the Government in formulating policy for the transition to “convergence” so as to ensure that a vital and key industry which currently plays an important role in securing not only its own profitability, but also the so called “National Outcomes”, continues to make an important contribution to the social and economic fabric of Australian life.

The Convergence Review Issues Paper provides an excellent point of reference for wider discussion and debate on the convergence issues. Most of the matters raised in the document are relevant to the radio industry and more detailed responses and comment will be provided in due course. The document will serve as a very useful reference for the debate now taking place in the Digital Radio Planning & Steering Committee which FARB sees as the appropriate vehicle for participating in the determination of policy specific to the transition of the radio industry to full convergence.