

Department for Culture, Media and Sport & Department for Trade & Industry

Consultation on Media Ownership Rules

RESPONSE FROM GWR GROUP PLC

Introduction

GWR Group is the leading UK commercial radio broadcaster. We operate the national stations Classic FM, Core and Planet Rock, 32 local stations in the UK and the classicfm.com and koko.com internet services. GWR is the majority shareholder in Digital One, the sole commercial national digital radio multiplex company, and holds 16 digital radio licences. The Group also has interests in stations in Australia, Austria, Bulgaria, Finland, Holland, Hungary and South Africa.

GWR welcomes the opportunity to comment on the proposals on the future framework for media ownership: the current rules are outdated and inflexible. We look forward to the deregulatory measures in the White Paper “A New Future for Communications” coming in to force.

Executive Summary

- **Analogue radio ownership** should be governed by competition law nationally, and by the CRCA/Radio Authority Local Points System in local areas.
- **Analogue licences** should be renewed automatically into the second post-digital licence period, to give a more realistic pay-back time for investment, given the slow take-up of digital radio thus far.
- **Digital radio multiplex ownership** should be governed by competition law once there are three or more multiplexes in an area.
- **Digital radio programme service ownership** should be governed by competition law.
- **Cross media ownership** should be regulated by a sliding scale system as outlined in section 6.5.11 of the consultation document.
- **Content regulation** should be “light touch”, and based on initiatives such as the Classic FM Consumer Panel.
- **Review of ownership rules** should take place every 2 years
- **The new rules should be implemented as soon as possible.**

Achieving the Government's Key Aims

Our detailed response is structured in line with the four key aims set out in section 5 of the Consultation on Media Ownership.

5.2: To create the most competitive market possible whilst ensuring plurality of voice and diversity of content

Analogue radio ownership

The radio ownership proposals developed by our industry association, CRCA, and the Radio Authority provide an effective framework for meeting this objective. As set out in section 1 of the Consultation document, diversity will increase as ownership concentration increases, because the owner of a number of channels will programme them for minimum overlap, thereby achieving the highest total audience and the widest choice of stations.

The introduction of less restrictive radio ownership rules will therefore lead to more choice for listeners. The proposed CRCA/Radio Authority rules use competition law as the sole arbiter of UK-wide radio ownership limits, with local analogue licence ownership questions resolved by a system of local "points" which would guarantee plurality in any area. The ownership of national analogue stations (such as Classic FM) will also be governed by competition law.

The Consultation document mentioned that the Government "could deregulate further" – GWR continues to support the framework agreed between CRCA and the Radio Authority, but if further deregulation is desired, the threshold of "points" which one operator can own in a local market should be raised from 45% to above 50%. In digital radio, further deregulation is also desirable – this is outlined on page 4 of this response.

In calculating the "universe" of local points from which an operator's percentage share is calculated, it is important that the new Access Radio stations are included. These new stations will provide additional listener choice in the areas they serve, and they must be included in any consideration of issues of local plurality.

These rules must be implemented as quickly as possible to allow the UK industry to reach an economically viable scale whilst safeguarding regional and local identities. In the current economic climate any delay could be dangerous. Government should give a clear indication of the ownership system it will adopt in the Communications Bill. This will enable discussions to take place within the industry, preparing for changes against that "shadow" template, with the deals being completed once the new legislation is in place. Guidance from Government to the Radio Authority that such arrangements are to be encouraged while new legislation is awaited would ease the regulatory path – a similar process of development happened in ITV during the passage of the last Broadcasting Act.

5.3: To construct a framework which is robust but adaptable to a rapidly changing technological and economic environment

Digital radio ownership

The analogue radio ownership framework set out above is robust and adaptable. However, the digital radio environment is developing quickly with new services coming onto the air and equipment prices falling rapidly. Therefore the framework for digital radio ownership will operate in a context of significantly more services than are carried on analogue radio – most areas will enjoy more than 40 digital radio services.

Multiplex ownership

GWR proposes a two-stage ownership system for local digital radio: where there are one or two local multiplexes, the analogue local ownership rules should apply. Once there are three or more multiplexes serving an area, conventional competition law should be introduced to deal with the greater number of options for listener choice and ownership combinations.

Digital Programme Service ownership

It is in the field of programme services that the future offers the greatest diversity. With an increasing number of channels coming onto the air as multiplexes go live, it is GWR's view that Digital Programme Service ownership should be governed by competition law alone.

Cross media ownership

Overlaying single medium ownership systems will be the cross media ownership rules, a major economic influence on radio companies which are currently prevented from realising the economic benefits of working more closely with other media owners, whilst safeguarding editorial independence.

Most cross media ownership proposals require an "exchange rate" to be calculated, arguing that it should reflect the differing perceived impact of different media. Much research must be carried out to test this hypothesis, and GWR believes that it would not be possible to conclude this work in time for it to be incorporated into the legislation. This is one of the first areas that should be revisited in the regular review process proposed by the consultation document. If the exchange rate question were settled, then a system operating purely under competition law with public interest tests to safeguard plurality would be possible.

However, of the range of solutions presented in the current ownership consultation, GWR Group prefers the “sliding scale” proposal in 6.5.11 of the document, as a system which could be implemented quickly. We would prefer higher thresholds than those presented in the consultation document, in which a company would be limited to 40% of a single medium, 30% of each of two markets, 20% of three markets or 15% of four. “Share of Voice” is the most appropriate measure (share of viewing, share of listening, share of readership, etc.) because it includes the effect of the BBC, which makes a significant contribution to diversity and plurality in every area. Each form of media consumption would be treated as equal – a reader is equivalent to a listener and equal to a viewer – with no variation in the impact of the media on consumers.

Cross media ownership already works to the benefit of listeners in a number of areas, where local newspapers and local radio stations work together to provide a better service whilst maintaining separate editorial and advertising teams. Ranging from the joint Snowball Charity Appeal in Coventry, through the “Time to Read” literacy initiative in Peterborough, to the campaign to raise funds for a new Children’s Hospital for Bristol, co-operation between print and broadcast media has many positive outcomes without threatening the range of news sources available to listeners and readers.

GWR encourages the relaxation of cross media ownership rules, in parallel with the relaxation of the radio-specific ownership rules.

Foreign ownership

In a developing world market of media companies, the UK has taken a lead in a number of sectors. In GWR’s case Digital One, the digital radio multiplex company in which we hold a 63% share, is a world leader in digital radio marketing and transmission, and is already earning income from overseas broadcasters as they prepare for the introduction of digital radio.

To compete effectively in such markets, it is essential that fair and equal conditions exist for all players – until other countries remove their restrictions on UK ownership of their media companies, we see no reason to lift the UK’s restrictions on overseas ownership.

Reviewing the rules

The Consultation document’s proposal that ownership rules be reviewed every two years is wholeheartedly supported by GWR. The current rules – originally devised some 13 years ago – are a significant brake on the development of our industry. The opportunity to undertake regular reviews without waiting for scarce parliamentary time will be an essential component of keeping the ownership framework up to date, in particular in responding to the development of digital radio.

5.4: To provide as much certainty and predictability as possible

Licence renewals – the analogue/digital link

The key medium to long term uncertainty in media businesses is the security of the licence to broadcast. Uncertainty in this area will deter investors from taking a long term view on new developments, especially where new technologies require significant investment before there is any prospect of a return. Much digital investment has been underpinned by the expectation of income from existing analogue licences, but the combination of the economic downturn and the slower than expected digital radio take-up gives the industry a problem. Digital radio receivers are only now falling to price levels acceptable to the market, and the BBC has not started to promote digital radio as its new digital radio channels are not yet on air. Digital TV has had well-publicised problems, and digital radio runs on a longer timescale. Digital radio will not become viable within the original planning horizon, hence analogue revenues must be guaranteed for longer to safeguard the digital investment.

In both radio and television, revenues from successful analogue licences fund the start-up costs and early years losses of fledgling digital services. In radio, analogue licence renewals have been used to encourage digital radio investments - once a commitment has been made to broadcast a channel on digital radio the analogue licence has been rolled over.

Analogue revenues will continue to subsidise digital for much longer than was originally thought. It is GWR's view that the roll over of national and local analogue licences should be extended and allowed from the first post-digital term into a second post-digital term, on condition that the analogue licensee negotiates and secures digital carriage for their second post-digital analogue licence term. This will ensure both the success of digital radio and the return of the original investment.

For national analogue licences, the digital-linked renewal process will include the “shadow bid” process (as carried out when the national licences underwent their first digital-linked renewal) to set the cash bid and percentage of qualifying revenue to be paid in the new licence period. This process should take account of the costs of digital investment made by the analogue licensee.

5.5: To be reasonable and proportionate

Content regulation

The Consultation on Media Ownership Rules aims to “ensure that citizens receive a diverse range of content from a plurality of sources”. Although the relaxation of ownership rules will increase diversity, modern and relevant content regulation will provide additional safeguards.

Consumer input is vital to the success of all radio stations, and GWR is pioneering methods of providing consumers with access to its stations to comment on output and suggest improvements.

The Classic FM Consumer Panel, chaired by former Secretary of State Chris Smith, attracted more than 1000 applicants when places were advertised on Classic FM: the applications are being processed and the Panel will meet for the first time in early Spring 2002. The Classic FM Consumer Panel will reflect the views of consumers in the annual programme planning process for Classic FM. With members drawn from a variety of backgrounds, it will provide a vital channel of communication with the audience and a qualitative complement to the quantitative data gleaned from the station's extensive research. It will produce a report annually which will go to the GWR main board: a public summary of the Panel's proceedings will be prepared, released to the press and placed on the classicfm.com web site. The Panel will invite listeners' views by letter or e-mail.

Initiatives such as the Classic FM Consumer Panel prove GWR's credentials for self-regulation and offer a template for the future. This model of a self-regulatory monitoring process conducted by listener representatives with backstop reserved powers for the regulator is applicable to other radio services and to television, and GWR will be sharing its experience in this field with other media companies to encourage them to follow suit.

External content regulation in the future must be rigorously consumer-focussed, and must be the minimum required to maintain the spirit of the programme plans which led to the licence being awarded.

Conclusion

GWR commends the Media Ownership Consultation team for advancing the debate on media ownership options and producing a clear and concise consultation document.

It is now essential that the White Paper, produced during a boom time for the industry, be translated into legislation appropriate to challenging economic conditions. The pace of legislative change must be maintained for the industry to benefit from the new regulations. We look forward to seeing the draft Communications Bill at the earliest opportunity, since it is vital to the public interest that the framework for the long-term future of UK broadcasting is completed by Parliament within the next 12-18 months.

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