

COMMENTS
for
UNITED KINGDOM RADIO FESTIVAL
JULY 18 - 19, 1985
BRISTOL, ENGLAND
BY
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INTRODUCTION

The radio industry is alive and well in the United States. We have seen a continuing growth in a number of commercial radio stations, radio sets in use and the sale of these sets. For example, in 1975 there were approximately 7,000 commercial radio stations, and in 1985 there are over 8,500 commercial stations on-the-air. Additionally, in 1985 we have issued 588 construction permits, representing additional commercial radio stations that will soon begin operations.

In 1975 there were approximately 402 million radio sets in use compared with approximately half a billion in use in 1985. Sales of radio sets reached 60 million in 1984 alone.

Audience research measures provide us with some interesting information regarding radio listeners. We know, for example, that:

- * There are nearly 85.5 million households in the United States with 99% of them having radios.
- * The average household has 5.5 radio sets.
- * 95% of all cars have radios.
- * Radio's average audience reach (persons 12 years of age and older) is 80.7% in a day, 95.7% in a week.
- * Persons 12 years of age and older spend approximately three hours and 12 minutes daily listening to radio with the majority of listening time (two hours, 14 minutes) going to FM stations and the remaining time going to AM stations).
- * AM's average audience per quarter hour is 7.5 million, while FM pulls in 17.9 million.
- * The FM band proves the overwhelming choice of younger listeners: 90% of those aged 12 to 24 tune in FM and only 10% choose AM.
- * Among adults 50 years and older, 55% choose AM; 45% listen to FM.

- * Radio delivers the news first in the morning to 56% of the United States adult population.
- * Car radios reach three of four adults in the course of the week.
- * Finally, radio reaches over 12 million people with walk-along sets.

Because the radio industry in the United States is essentially commercial, advertising revenues are a very important indicator of industry health. For example, just 10 years ago in 1975, total advertising revenues for radio was \$522 million, and in 1985 radio advertising revenues are expected to top \$6 billion. Just in the last three years advertising revenues have increased over \$1.3 billion (1982 -- \$4.6 billion; 1983 -- \$5.2 billion and 1984 -- \$5.8 billion). Relative to other media, radio has captured approximately 6.9% of all advertising dollars for the past few years. It is important to note that the number of radio stations on the air has increased, as well as the total amount of advertising revenues devoted to radio, while the percentage of dollars devoted to radio relative to other media has remained essentially constant. This would indicate that the growth of radio has not impacted negatively on existing radio advertising revenue and that commercial radio continues to be a viable industry.

Finally, research has also shown that local advertising provides approximately 85 cents of each sales dollar; with 14 cents coming from national and regional sales (network sales not included). The typical radio station spends 36 cents of every expense dollar on sales and promotion, 33 cents on general and administrative costs, 26 cents on programming and news, and 5 cents on technical expenses.

As a complement to our commercial broadcast system, the United States also has non-commercial broadcasting, or public broadcasting. Non-commercial broadcasting is distinguished from the commercial industry by its unique form of funding and programming. In the United States, non-commercial broadcasting derives its funding mainly from a mixture of national, state, and local government appropriations, and from voluntary private contributions. I have been particularly involved with public broadcasting during recent years. I chaired a congressionally mandated committee charged with seeking solutions to public broadcasting's continuing financial crisis. While we continually seek new funding sources for public broadcasting, I remained convinced that it should avoid selling advertising since it serves as a bright line distinction from commercial service. Indeed, those in the public broadcasting community look at its unique source of funding as a means of preserving its character by: (1) fostering independence from any single funding source; and (2) encouraging the provision of programming

that serves many different purposes and audiences. Congress has sought to prevent undue dependence on federal dollars by appropriating money for non-commercial broadcasting through a "matching" mechanism that encourages public broadcast stations to seek non-federal funds. The matching mechanism permits a non-commercial broadcast licensee to receive \$1 of federal support for every \$2 of non-federal support the station is capable of generating. The programming fare for public radio includes: news and public affairs programming, classical and jazz music, opera, theatre, children's programming, and programming for minorities.

Question 1 - PART 1: What has U.S.A. radio deregulation meant to: the practitioners, the audience?

To the practitioner, radio deregulation has meant less federal intrusion into the operation of the radio business, less paperwork, and the opportunity for greater flexibility in meeting the needs of the listening audience.

To the audience, radio deregulation has met with no noticeable reaction.

Briefly, when the Commission deregulated radio it eliminated the guidelines pertaining to the amounts of non-entertainment programming (news and public affairs programming) that commercial radio stations should provide and the number of commercial minutes per hour that they should not exceed. Further, the Commission eliminated its community ascertainment requirements and its program log keeping requirements for commercial radio stations. The Commission explicitly stated that this action was taken to reduce the paperwork and other burdens on commercial radio stations without having a substantial adverse impact upon the public interest.

Before deregulation, radio licensees were airing more news and public affairs programming than required by the Commission's guidelines. Additionally, licensees were airing less advertising than what our guidelines required. Consequently, the Commission concluded that the regulations were outdated and that licensees would present programming that met public needs as a natural consequence of responding to market conditions. The Commission's radio deregulation decision was challenged in court and upheld, except for the elimination of all program log requirements. In returning this part of the order to the Commission, the court expressed concern over the ability of the Commission and public to monitor the impact of the Commission's action.

In order to address the court's concern, the Commission revised its record keeping requirement. The Commission now requires licensees each quarter to place a short list of community issues and programs presented to meet those issues in a file accessible to the public. The public then can assess whether the programming presented by that licensee has met these community needs.

The bottom line of deregulation is to eliminate unnecessary requirements and procedures while insuring that the public interest standard is observed by radio licensees. By eliminating unnecessary regulations, the Commission believes that licensees will have greater flexibility in meeting the needs of the public, and will be able to do so in a more efficient manner relative to the rather rigid and time-consuming process of federal regulation. If listeners' needs are being met more efficiently, then one would expect that there would be little or no adverse reaction to rule changes that created these efficiencies.

A recent study conducted by Dr. Vernon Stone for the Radio Television News Directors Association demonstrated that deregulation has "caused no change in news or public affairs staffing or programming at the great majority of stations." Radio news directors indicate that staffing and the amount of programming has either increased or remained the same at the overwhelming majority (over 90%) of radio stations. Those radio stations which have reduced their news staff are primarily in larger markets, however, those losses are compensated by staff increases at other stations. Staff size and the amount of public affairs programming have remained virtually the same or increased at most stations (94% and 85%, respectively). Like the news decreases, most of the public affairs cutbacks were in larger markets with more programming alternatives. (This study was conducted during the fall of 1984.)

As Commissioner, I can safely say that I have heard very little from listening audiences regarding programming in the news and public affairs categories as a result of our deregulation efforts.

Question 1 - Part 2: Can you cite examples where you wish you hadn't deregulated or areas where you would prefer regulations to exist?

As part of our overall deregulatory efforts, we eliminated the annual financial reports required of broadcast licensees. These reports provided revenue and expense information which was then compiled by the FCC. This information provided us with a good analysis of the economic health of the broadcast industry. However, this financial information was essentially used by the broadcast industry rather than by the Commission. As such, the

Commission felt that collecting this financial information at the taxpayers expense was an undue burden on licensees and an unnecessary expense item in our budget. Unfortunately, industry attempts to collect this financial information have not been as successful as the FCC's prior regulation. Private industry is somewhat reluctant to provide either their associations or specified accounting firms with confidential financial information. Therefore, accurate measures of the economic health of the industry on a market-by-market basis is somewhat lacking.

Overall, I am pleased with the deregulatory efforts of the Commission. I encourage further deregulation in the technical area where current regulations impose standards on signal quality. (I discuss this issue in more detail later.)

In hindsight, it might have been better had the Commission endorsed one AM stereo standard. As it is, we left it to the marketplace to determine the AM stereo systems to be adopted by licensees. Consequently, I see this as causing delays in the development of AM stereo. In the case of stereo television, the Commission adopted a policy that protected the BTSC pilot tone (the Zenith system), and permitted the marketplace to develop stereo systems. Currently, there are now 70 television stations transmitting in stereo and NBC, a major network, is planning to "go stereo" this month (July). To date, there are approximately 400 AM stations transmitting in stereo. In any event, I believe that what we are doing with the deregulatory efforts pertaining to radio is the more appropriate alternative to government regulation.

Question 2: What sources of finance are available to the U.S. radio which are as yet untapped by U.K. radio? Do they have advantages, e.g., sponsor pressure on editorial content of programming?

Clearly, one source of financing available for radio in the U.K. is revenue generated from advertising. In an article appearing in the Financial Times written by Malcolm Rutherford, he aptly described the present situation in the U.K. as one of a comparable duopoly. ITV has the monopoly of the advertising revenues and the BBC has the monopoly of the license fee. It is interesting to note that the pressure for the BBC to take advertising is coming from the advertising industry itself, according to "Funding the BBC," by Saatchi and Saatchi Compton. I am sure we can sit and discuss the advantages and disadvantages to advertising at great length, however, I would like to discuss briefly other avenues for generating revenue associated with radio.

Getting the most out of your broadcast spectrum is one alternative mean of developing additional revenue. Continuing our efforts to deregulate the broadcast industry and to seek more spectrum efficient technologies, we have removed many of the restrictions surrounding use of the broadcast spectrum. Specifically with regard to AM and FM radio, we have allowed subcarrier or sideband transmissions to be used for a variety of revenue generating services. Radio broadcast signals, both AM and FM, have unused signal carrying capacity. With little additional expense, this signal carrying capacity can be put to a variety of uses providing services at a fee to the public. Briefly, the unused signal carrying capacity can be used for a wide variety of services. The AM Auxiliary Carrier Services include such things as management of public utility requirements over the signal coverage area of the AM station. For example, the electric company can allocate energy much more efficiently through signals carried by the subcarriers to remote locations. Additional subcarrier services include: the control of remote sensors for agricultural irrigation, data transmission of various types and transmitting emergency alert messages pertaining to weather conditions and other emergencies that may occur. With FM radio, the subcarriers are being used for program enhancement services, such as foreign language programming, specialized music programming and reading services for the blind. Additionally, FM subcarriers can be used for paging services, data transmission and a variety of services such as traffic signal coordination, electronic mail, and banking.

With the use of subcarriers, licensee can use the same transmitter, antenna, and cables as always, but some additional financial investment in electronics is needed to transmit these additional signals. According to National Association of Broadcasters' estimates, this additional cost could be as low as a few thousand dollars worth of hardware.

Like any other service that is provided, costs are also incurred in marketing the services available on your broadcast signals. The NAB estimates that an FM broadcaster in a city of moderate size can receive an additional \$3,500 per month for the use of his subcarrier channels. According to the most current report (April 1985) of the National Association of Broadcasters, about one-third of the radio stations indicate use of at least one subcarrier. Of these stations, 61% plan to increase their use of subcarriers in the near future. Of the stations not indicating use of subcarriers, 40% indicate that they plan to use this capacity in the near future. Currently, these subcarriers are most often used for background music and data transmission.

I have with me today the Radio Subcarrier Services COM/TECH Report of the National Association of Broadcasters and I will leave this report with you. It presents more detailed information regarding the technical aspects of channel use.

In addition, temporary commission on funding for public broadcast stations, that I chaired, studied a variety of financing options for non-commercial broadcasting. We reported to Congress a series of proposals that we felt could provide additional funding for non-commercial broadcasting. Some of these options may be applicable to the situation here in the U.K. I will leave a copy of these reports with you and they describe in more detail the options that I will describe briefly.

Our report recommended that Congress establish additional tax incentives for private citizens and corporations to contribute to non-commercial broadcasting. Additionally, we suggested that a trust fund be developed to assure a supply of financing for programming. The bottom line of the report to congress was that there was no preferable alternative to continued federal funding for non-commercial broadcasting, but that there are options available -- some of which required both statutory and regulatory action -- to help finance non-commercial broadcasting.

One step in particular may warrant discussion. As I noted before, an important source of funding for public broadcasting is corporate program underwriting. Previously, strict rules limited the type of sponsorship message that could be presented. Now, after the temporary commission's recommendations were adopted by the FCC, the distinction between underwriting and advertising is only that public stations may not promote products. The announcement may identify, and in the case of television, may picture a company's product, and may include a brief message identifying company products or services. So far, the Commission has not been asked to determine whether any message may have crossed the line and constituted "promotion." I am told that the liberalized rules have encouraged businesses' contributions.

Question 3: What technical requirements are made of U.S. radio stations? For example, do studios and transmitters have to reach certain standards? Is standby equipment mandatory?

This question is very timely with regard to current Federal Communications Commission proceedings. We are in the process of eliminating many of the technical requirements that have been imposed upon radio broadcasters through the 51 years of FCC existence. Specifically, we are attempting to remove regulations that affect the quality of the broadcast signal and its reception. An example of such regulation is the formally required annual audio performance measures to determine the quality of the audio transmission. By eliminating such technical regulations, the Commission is relying upon the marketplace as a means of regulating the technical quality of broadcast. We operate on the principle that if a broadcast

facility is transmitting less than acceptable quality signals, the listening public will then tune the dial to another station whose audio quality is better. The bottom line in quality control is the economic viability of the station. If the broadcast station's technical quality is reduced and the listening public perceives a reduction in the technical quality, the listeners will choose alternative stations. If a broadcast station's audience decreases, then the financial revenues derived from advertising on that station will also decrease. Keep in mind that the object of the commercial broadcast industry in the United States is to maximize their profits while serving the public interest. Therefore, we believe that economic incentive is the primary motivating force determining the technical quality of broadcast transmission, and this economic incentive is far more effective than federal government regulation.

Where the Commission does maintain technical regulations is in the area of interference. The Commission is committed to insure that the integrity of the broadcast signal with regards to interference be maintained.

Question 4: What general arrangements for paying for phonographic music apply in the U.S.A.? What about "needletime" restrictions?

The American Society of Composers, Authors, and Publishers (ASCAP) and Broadcast Music Inc. (BMI) represent artists whose works are aired. These organizations negotiate blanket licenses and establish a fee requirement that radio licensees must pay. Both organizations collect fees from licensees and distribute collected monies to the artists. License fees are based on a percentage of the radio stations' revenues. ASCAP and BMI negotiate these fees with broadcast licensees. Additionally, they may form a joint licensing committee that would also negotiate with licensees. Regarding needletime, audits are made by ASCAP and BMI on a sample of radio stations to determine the extent to which an artist's recording receives air time. Credits are awarded to the artist in proportion to the amount of air time that artist receives and he or she is compensated accordingly. The Federal Communications Commission has no requirements or regulations regarding the amount of air time an artist may receive on a broadcast station, or about total air time a radio station may devote to recorded music programming.

Question 5. What program quality control is exercised by the FCC?

Congress requires the FCC to walk a fine line in regard to the programming presented by Commission licensees. On one hand, Congress specifically prohibits the Commission from censoring broadcast programs. On the other hand, when a broadcaster seeks

renewal of its license it may be required to present evidence that it has programmed in the public interest in order to show that it is entitled to a "renewal expectancy" and should thus be preferred over a new applicant for that license.

With its radio deregulation decision, the Commission eliminated the guidelines that described amounts of news, public affairs and other "quality" programs that broadcasters should provide. The Commission believes that marketplace forces will ensure that sufficient amounts of public affairs and news programming continue on commercial radio. The Commission reserved the right, however, to reregulate in the event of a "market failure" where radio licensees in a particular market were not serving the public's needs and interests. No such failures have yet been noted.

While the Commission has moved to eliminate regulatory policies directed at program content, some restrictions remain. For example, Congress has made it a criminal offense to broadcast obscene, indecent, or profane programming, and Congress has banned promoting lotteries or advertising cigarettes on a broadcast station. Also, there are detailed rules designed to ensure the rights of candidates for public office to achieve access to the airwaves and to promote "fair" presentations of contrasting points of view on controversial issues of public importance.

Without a doubt, the present Commission is more inclined than any previous FCC to leave programming decisions to the discretion of the broadcast licensee. This involves risks that licensees will present programs which we do not like, but in my view this is the only course of action that is consistent with the requirements of our Constitution's First Amendment. Nothing presents higher risks to democracy than government oversight of the media, however well intentioned such oversight may be.

Question 6. In the U.K., the BBC and ILR simulcast on FM and AM. We are reluctant to change because only 23% of the people listen on FM; the others find AM easier to handle. What is the experience in the U.S.A.? Do people find each waveband equally attractive?

As evidenced by the figures I cited earlier, FM has grown dramatically during the last decade to become the dominant radio medium in the United States. Until very recently, listeners wanting stereo music had no choice but FM. While the FCC authorized AM stereo in March 1982, it did not specify a technical standard. The presence of competing, incompatible methods of offering AM stereo has no doubt slowed the introduction of this service. Also, music programming on FM may be preferred by listeners because if the signal can be received, it will be relatively free of noise.

Finally, because of stereo availability and the noise characteristics of FM service, sophisticated radio receivers have higher quality tuners for FM reception. To the extent that United Kingdom radio listeners choose music programming, the U.S. experience suggests that a dramatic growth in FM popularity may be on the horizon.

Simulcasting on AM and FM still occurs in the United States, but the FCC has long regarded simulcasting as an inefficient use of the spectrum. Accordingly, the FCC has restricted it. In addition, marketplace forces militate against simulcasting as radio markets become more competitive.

Question 7. Is U.S. radio better or worse than British and why?

I am in no position to judge the respective merits of British and American radio since I have had so little exposure to the British variety, but I am willing to put in a few words of defense for the American system. First, I believe the American consumer has more stations from which to choose. And since ratings determine commercial station formats, the American consumer is directly involved in licensees' programming choices.

In addition, most radio consumers in the United States can select programming from public broadcast stations as well as commercial stations. Like public television, public radio can offer more innovative and experimental programming due to lower pressures to achieve high ratings. In Washington, I can even receive a couple of English programs on Sunday afternoons. (E.g., "My Word.") I think the United States would benefit greatly from a stronger public radio presence, so I look with envy on the license fee available to the BBC. On the other hand, I think the variety of funding sources now available to public broadcasting in the United States plays a crucial role in the variety and independence of that service.

I have been involved in radio during most of my life, both as a broadcaster and as a member of the Federal Communications Commission. I believe in radio's unique service, and I believe in the public's ability to recognize quality programming and to make it profitable for the broadcaster who offers it. I am no doubt prejudiced towards this view by my experience, but I would expect that British radio will respond to consumer demand by becoming somewhat more like American radio in the future. My only suggestion is that you work to retain the best of the superb service you now offer, while opening up opportunities for competing services that can meet consumer demand.

Summary of Most Discussed Options for Alternative and Supplemental Funding	Net Revenue Potential		High Startup Costs	Action Required		
	High	Significant		Legislation	FCC	Private Initiative
1. Enhanced program underwriting	See			?	X	
2. Advertising announcements	Footnote *			X		
3. Leasing of excess transponder and terminal equipment		X			X	
4. Leasing of equipment and crews						X
5. Teleconference services		?	X			X
6. SCA data and other services					X	
7. Teletext services		?			X	
8. Commercial production contracts						X
9. Equipment maintenance and repair						X
10. Program guide advertising		?				X
11. On-air promotion of program related material		?		?	X	
12. Subscription television service		X			X	
13. Cable system ownership		X	X			X
14. Offering subscription pay cable programming		X			?	
15. Cable system program service (leasing)			?			X
16. MDS-ITFS narrowcast service		?	X		X	
17. Direct broadcast satellite ownership	X		X		X	
18. Satellite ownership		?	X	X		
19. Reservation of low power TV channels for commercial use by public broadcasters		?		?	X	
20. Excise tax on new TV and/or radio receivers	X			X		
21. License fee on sets per TV household	X			X		
22. Corporate tax credit for contributions to public broadcasting	X			X		
23. Individual tax credit for contributions to public broadcasting	X			X		
24. Tax return checkoff designating a portion of refund for public b'casting		?		X		
25. Tax return checkoff designating a por- tion of tax owed for public b'casting	X			X		
26. Spectrum use fee - General	?			X		
27. Fee for commercial licensees with deregulation or tax credits	?			X		
28. Tax on advertising revenues	?			X		
29. Full federal funding	X			X		
30. Gov't matching of private contributions	X			X		
31. Commercial station annual fundraising telethons						X
32. Relaxation of regulatory requirements					X	
33. Lotteries	X			X		

* These matters are being explored in the TV advertising demonstration project.

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1. Enhanced program underwriting	See			?	X	
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4. Leasing of equipment and crews						X
5. Teleconference services		?	X			X
6. SCA data and other services					X	
7. Teletext services		?			X	
8. Commercial production contracts						X
9. Equipment maintenance and repair						X
10. Program guide advertising		?				X
11. On-air promotion of program related material		?		?	X	
12. Subscription television service		X			X	
13. Cable system ownership		X	X			X
14. Offering subscription pay cable programming		X			?	
15. Cable system program service (leasing)			?			X
16. MDS-ITFS narrowcast service		?	X		X	
17. Direct broadcast satellite ownership	X		X		X	
18. Satellite ownership		?	X	X		
19. Reservation of low power TV channels for commercial use by public broadcasters		?		?	X	
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25. Tax return checkoff designating a por- tion of tax owed for public b'casting	X			X		
26. Spectrum use fee - General	?			X		
27. Fee for commercial licensees with deregulation or tax credits	?			X		
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