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The Broadcasting Authority Secretariat,
Television and Entertainment Licensing Authority,
39/F, Revenue Tower,
5 Gloucester Road,
Wanchai,
Hong Kong

21st February, 2001

Re: Digital Terrestrial Broadcasting in Hong Kong

Dear Sir,

We refer to the consultation paper on this subject, and are pleased to offer the following comments, especially with regards to the proposals for digital audio broadcasting (DAB).

Firstly, we are in complete agreement with the consultation paper's finding that DAB is not commercially viable in the short term, and its prospects are uncertain in the longer term (para. 8.5). However, we would like to offer our views on a couple of points which stems from this position on which we both agree.

1. Conditions for introduction of DAB

The consultation paper states (para. 8.4):

"However, consumers are unwilling to pay for the DA broadcasting receivers at the current market price of around $6500 unless the price falls to below $500. It is estimated that the price would only come down in around 2003 at the earliest when the worldwide production volume of DA broadcasting receivers is significantly increased."

Although it may not necessarily be the intention of the Government to use the figure of $500 as the benchmark for "affordability" under condition (b) for the introduction of

DAB (para. 8.8), the above statement may have given that impression to the public. It appears, from Annex 9, that the figure of $500 arose out of a consumer behaviour survey. However, we believe that it may be misleading to draw conclusions from consumer research in this way.

Para. 2 of Annex 9 states: "Despite consumers' positive response to the capability of DA broadcasting to provide more radio content, they are not willing to pay for an DA broadcasting receiver at price above $500 while the price of an DA broadcasting receiver is about $6,500."

It should be noted that while consumers are unwilling to pay more than $500 for DAB receivers, it does not necessarily follow that they would be willing to pay $500 for it for two reasons; a) that no price benchmark less than $500 was offered to the survey respondents. This means that anyone who would be willing to pay any money at all for a DAB receiver (even no more than $50) had no option but to choose the $500 benchmark and b) that according to the consultancy report (p. B-2), fully 50% of the consumers surveyed said they will not purchase a DAB receiver at any price. The reason for this is clear: from an economics perspective, the rational consumer will only be willing to purchase a DAB receiver if they can see clearly that the extra value of DAB over current radio is worth the price they have to pay for the receivers.

As the consultation pointed out, the benefits of DAB are mainly in the areas of improvements in the sound quality to CD standard, and providing more radio content. Let us consider these two benefits in turn.

Unlike the TV, which serves as a centre-piece of furniture in most living rooms in Hong Kong, radios are far more ubiquitous. Radios are listened to by individuals at home as well as by people on the move. Because they are so inexpensive, families typically have many radio receivers, and radio receivers are built into many other devices such as cars, walkmans, clock radios, even into gimmicks such as novelty items, clothing accessories, pens etc. Therefore, even a middle to lower income family may have many devices which incorporate a radio receiver in their homes. In most of these applications, the quality of sound production is not determined by whether the mode of transmission and reception is analogue or digital, but by the quality of the speakers or ear-pieces, or in the case of radios on automobiles, the quality of sound insulation of the automobile. The perceived value of "CD quality reception" to the consumers of these simple radio receivers is therefore close to zero. For this reason, if a consumer is not in the habit of

listening to radio broadcasts via their stereo hi-fi systems, their perceived value of "CD quality sound reception" is also close to zero.

In this connection, we would also like to mention that during our DAB trials, the sound quality of FM reception was virtually indistinguishable from the DAB trial broadcasts, even to the trained ears of our engineering professionals, when listened to inside our monitoring vehicles.

The other benefit of DAB is said to be providing more radio content so that the listener will have a wider choice, which will increase radio listenership and stimulate more advertising, and hence in turn enable more programme options to be provided. However the actual situation (as in all other countries which have implemented DAB thus far) is that a cycle of inactivity results: listeners only have a wider choice if they have receivers to listen with; programmers only produce programmes if there are listeners; advertisers only advertise if there are programmes with listeners; Ultimately something greater than the technical implementation of DAB needs to occur to break this cycle – either the creation of programming occurs simultaneously with a huge drop in the price of receivers, or consumers are provided with subsidized receivers as a way of kickstarting the system. In the rest of the world, neither situation has happened and DAB is widely regarded as a failure and a technology which missed its opportunity.

Lastly, we would like to point out that the competitive landscape for sound broadcasting is constantly changing. In this connection, one of the basic observations of Booz-Allen & Hamilton that "Current broadcasters are using those channels to compete with one another for individual station ratings, trying to maximise their individual pools of advertising revenues. Thus, a similar set of content offers available across the existing station with little being done to offer something unique to a new set of potential consumers" is now totally invalid. With the recent changes by our competitor Metro Radio to provide a 24-hour finance news channel and an entertainment channel, it must be said that in addition to RTHK, listeners now actually have a choice of 4 very different commercial FM channels, with each being very different in character and catering to the needs of a different audience.

In summary, we believe that the level of $500 for the cost of a DAB receiver was arbitrarily chosen for the purpose of the consumer research. Moreover, the research indicated that the vast majority of respondents said that they would not purchase a DAB receiver at the price of $500. Although approximately half of the respondents did

indicate that they will consider to purchase a DAB receiver at a price below $500, the research did not probe the respondents on the question of "how much below." Accordingly, it is our position that the level of $500 should not be used as the trigger point for consideration to introduce DAB, but rather, the cost of DAB receivers should be compared in the future with the cost of receivers employing alternative technologies.

2. Proposed amendments to the existing legislation and licence conditions

The consultation paper states:

(Para. 2.27) To amend the relevant legislation and licence conditions as soon s possible to enable radio broadcasting to take full advantage of convergence in technologies

(Para. 8.10): In the mean time, we will take stock of the multi-media development and assess its impact on the long-term viability of DA broadcasting. To pave the way for the launch of DA broadcasting services in future, *we propose to amend the relevant legislation and licence conditions as soon as possible to enable radio broadcasting to take full advantage of convergence in technologies.*

(Para, 9.3) In respect of television programme services, we have already separated the regulatory frameworks for the "transmission" and "provision" of television programme services. Transmission facilities can therefore be freed up to carry other telecommunications and multimedia services, while content providers can approach any carrier to transmit their programmes. The effect is that multifarious services and innovative products can thrive and flourish to benefit the consumers. We consider that this mode of regulation should be extended to sound broadcasting services as well. *We propose that the "transmission" and "provision" of sound programme services should be separately provided for under the Telecommunications Ordinance (Cap.106) and the Broadcasting Ordinance (Cap. 562) respectively. We also propose that the statutory provisions relating to the regulation of sound broadcasting services under the Telecommunications Ordinance (Cap.106) and the Broadcasting Authority Ordinance (Cap.391) should be incorporated into the Broadcasting Ordinance (Cap.562).*

It is clear from para. 9.3 that the benefits of separating the regulation frameworks for the "transmission" and "provision" of television services are generated entirely from the opening up transmission facilities to new providers. The only possible way that new providers could exist (under current spectrum limitations) is as a result of digital

terrestrial broadcasting. Since the question of whether and when to introduce DA broadcasting has been postponed to at least until 2003, there is neither the urgency nor the rationale to extend such regulation framework to sound broadcasting at this time. The consultation paper does not give any rationale why the mode of regulation which is appropriate for TV should be extended to sound broadcasting services right away. No reason is given as to why the relevant legislation and licence conditions should be amended "as soon as possible", especially in light of the reservations cited in Booz-Allen & Hamilton's consultancy concerning the longer term prospects for DA broadcasting. The only immediate effect of separating the regulation frameworks for "transmission" and "provision" of sound programme services is that each existing licensee will need to apply for two separate licences from two different Authorities instead of one, thereby increasing the administrative burden and bureaucracy of the current regulation framework. Logic dictates that any move to separate the regulation frameworks for the "transmission" and "provision" of sound programme services should only be considered if, and only if a favourable decision to introduce a method for increasing the number of available channelshas been made.

3. Relaxation of investment restrictions on licensees

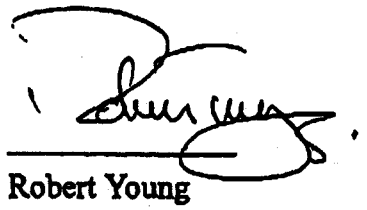
The consultation paper states (para. 2.37 and 9.10):

> At present, sound programme service licensees are restricted from engaging in other businesses not associated with sound broadcasting and that they are not allowed to invest into any other business without the approval of the Broadcasting Authority. The restrictions, which are stipulated in the licence conditions, are to ensure that licensees devote both their attention and resources to their primary sound broadcasting business. In an increasingly competitive market, market forces will likely drive companies to explore new business opportunities. We have already removed similar restrictions previously imposed on television programme service licensees. To foster the growth of the sound broadcasting industry, *we propose that the licence conditions relating to investment restrictions should be removed so that, subject to the restrictions on cross media ownership, domestic sound programme service licnesees would be allowed to invest freely.*

The logic of this proposal is compelling, and we welcome the relaxation of this restriction.

If you have any questions regarding the above comments, please do not hesitate the undersigned.

Yours sincerely,



Robert Young
Consultant