

### **Responses to the questions raised in the consultation paper:**

1. *Do you agree that FM radio broadcast have to be extended to smaller cities?*

*Please indicate basis of selection of new cities and reasons in support of your argument? Should allocation of channels be decided on city basis or it may be changed from city to district level?*

Without any hesitation, we would recommend that private FM be pushed into even smaller towns. In fact, the suggestion in the consultation paper that towns with population up to 1 lac be covered is a good suggestion.

However, what is critical to ensure is that the stations that come up in these small towns are viable economically. If economic viability is not there, there is unlikely to be any interest amongst private broadcasters. In that case, these small towns could end up in the same situation that we find many of the current D stations of the North East to be in.

As is well known, radio broadcasters earn their revenues only through advertising. The advertising market in these small towns is very small. Current experience with Phase 2 towns indicates that these small towns may only be able to generate revenues of between Rs. 20-50 lacs per annum. Thus, along with opening up these towns, it is advisable to look at policy changes with respect to cutting costs, improving revenues and improving viability.

Some important suggestions to improve viability are:

Number of channels: Since the local market is usually very small in revenue potential, we suggest that the number of frequencies be limited to just 2. Even 3 stations are too many for such markets for now. If the market develops, the government may consider putting out a 3<sup>rd</sup> frequency at a later date.

License fee concessions: For these small towns, similar concessions should be provided as the consultancy paper suggests for the small towns of the North East. Most issues remain similar in small towns across the country and this step would be a welcome step. We would like to further suggest that the government give a moratorium of 3 years on license fees for all category D towns.

District/state level frequencies: Since it is very possible that an individual small town may still be un-viable, clubbing them together into a bouquet of state-wide frequencies is a good idea. Thus if there are 4 small towns in a state, they should be collectively bid for and collectively offered to a broadcaster. This will ensure overall viability of the bouquet. It is being suggested that this clubbing be done on a state-wide basis and not a district-level. In some countries like the UK, the government actually allots national FM licenses as well.

Music royalties: The most important concession required by the radio industry is one that the MIB cannot sanction by itself. It can only influence the Ministry of HRD to help achieve this objective. This relates to the cost of music royalty. And while the issue is of a commercial nature (where the government may not usually like to get involved), the fact is that there exists a monopoly position for these music societies. The music industry has been misusing this position in the past. As is known, the radio industry pays royalties to the music publishers through two societies – PPL and IPRS. Given the intransigent stand that these two societies have taken (and continue to take), the amount of music royalty that broadcasters need to pay is exorbitantly high (by some estimates between 100% and 300% of revenues in the small towns). This renders the small stations unviable. If private FM has to spread in these towns, the royalty rates have to become realistic. Most of these small towns have a very small revenue potential (between Rs 20 to Rs 50 lacs per annum) – less than 1% of big cities like Mumbai or Delhi. It has been recommended by the radio industry in the past that total music royalties be either calculated as a % of revenues (1-3%) or be a small fixed cost (less than Rs 1 lac per annum in these small towns – for PPL and IPRS combined – at this rate, it would still be about 3% or so). *It must be re-emphasized here that if this is not*

*done, Phase 3 will be a non-starter and all the good efforts of the government will be in jeopardy.*

**Networking:** For all these small towns (C and D categories), it is recommended that unlimited networking be permitted. A broadcaster should be allowed to network these small towns to big A and B category towns. This will reduce the cost of infrastructure (setting up of studios), manpower and other costs.

**Government revenues:** Very importantly, the government must believe in the power of radio. We keep hearing (as also captured in your consultation paper) that radio is the best medium for entertainment, information etc. If the government really believes this, it must make it mandatory for all government advertising to be directed in suitable proportions to private industry. Given the importance of radio and the support it needs from the government, we propose that 25% of the governmental budget on advertising be directed towards private FM. This will lend support to small markets and small players.

Today unfortunately, we find that most government advertising is available only in the large markets – where advertising potential is anyways stronger. Support from the government to the smaller towns will go a long way in ensuring a successful roll-out across the country and making Phase III successful.

2. *Do you agree that number of channels for category A, B and C be restored to Phase II proposal wherever technically feasible and not implemented so far? Do you also agree with BECIL proposal to reduce number of channels in Category D cities from 4 to 3. Give your comments with justification.*

It is our considered view that the number of frequencies in a town should be related to several factors such as population, economic status, growth rates, etc. However, since the viability of the radio business comes from advertising revenues, one of the most important factors is the advertising potential of the market.

What we would like to see is a big increase in the number of frequencies in the A+ and A towns. In our view, there must be up to 20 private FM channels in the A+ towns and up to 10 in A towns. It is technically possible to have up to 16 channels with an 800 KHz separation in just the “exclusive for FM” bands (as contained in your consultation paper). If the other bands – 87 to 91.5 MHz and 95-100 MHz – can be made exclusive for FM channels, another 10-12 channels can be added with an 800 KHz separation. This would make the total offering about 26-28 channels. Out of these private FM broadcasters could be allotted 20 channels.

Likewise in the A category towns, while it would be possible to go up to 22-24 channels, it may be advisable to restrict the number of channels to about 10 for now – given the revenue potential in A towns.

In B towns, there could be up to 6 channels; in C towns up to 3 channels and in D towns, up to 2 channels (as discussed earlier).

It must also be kept in mind that frequency planning and spectrum allocation must first be done for the larger cities and then for the smaller towns. So if Delhi needs 26-28 frequencies, it is possible that the smaller nearby town of Panipat may have to make do with only 2 (so that there is no overlap between Delhi and Panipat signals). And similarly, the frequency needs of Ahmedabad must be taken care of before frequencies are made available to Nadiad and Anand.

If a further need for frequencies arises in the future, a 400 KHz separation can be planned.

3. *Do you feel that the present restriction of one channel per city and ceiling of 15% of all channel allocation in the country to an entity needs revision? Give your suggestions with justification.*

It is our view that these artificial shackles that bind the radio industry be removed immediately.

Let us understand what the government's stated reason for limiting each broadcaster to only one frequency was: preventing monopolies from emerging. At present, A+ and A towns have more than 8-10 channels each (with 6+ channels being available for private broadcasters). With so many channels available to a listener, radio broadcasters are finding it difficult to build loyalty amongst listeners. The recent RAM data (listenership study in Delhi, Mumbai and Bangalore undertaken by TAM – details can be furnished if required) indicates that almost all listeners listen to almost all the channels. Thus listeners get a variety of view-points from all available options. In fact, the number of "exclusive" listeners (those who listen to only one channel) is now barely 5% of total listeners. With this reality, it should be clear that there can be no monopolies at all.

It is for this purpose that the TRAI had itself recommended that multiple frequencies be allowed to broadcasters with certain caps: 33% of all available frequencies or 3 whichever is lower. This is a good starting point – for the current number of frequencies available. However, as more frequencies are made available, this cap of 3 should be removed and a pure 33% cap should apply.

The reason why multiple frequencies should be made available to broadcasters is simple. When a broadcaster is allowed multiple frequencies, it will naturally offer diverse programming variety. A channel offering the latest Hindi music may choose to offer older Hindi music or English music or Hindi dance music or maybe even regional music. This comes from simple business logic: That a new format would attract new listeners and the channel would get compensated by advertisers for these new listeners. For eg, if a broadcaster is offering latest Hindi music, and it starts a Marathi music station (currently not available), it is possible that it may be able to pull in an extra 20 lac listeners. Advertisers would then add this station to their media plan. But if only one channel were available to this broadcaster, it is easy to understand why this channel may not offer a Marathi channel but would prefer a mainstream new Hindi music format. The logic is purely commercial. Even with many channels offering new Hindi music, it makes more business sense to offer this format compared to a Marathi format.

There is another reason why a broadcaster may consider launching a smaller music format as a 2<sup>nd</sup> or 3<sup>rd</sup> channel. Many of the costs of operation of radio can be shared with the first channel. The cost of infrastructure can be reduced – 2 extra studios is all that needs to be added to add a 2<sup>nd</sup> channel. The 3<sup>rd</sup> and all subsequent channels can be added by adding just 1 extra studio. Likewise the cost of operations can reduce significantly: the entire burden of the sales team can be shared (the sales team is the largest in a radio station – for larger companies, there could be as many as 400 sales team members nationally – at a cost of between Rs 20-28 crores per annum). Similarly, senior people in the programming team can be shared. The cost of marketing would also be smaller as channels would be promoted on each other. The cost of electricity, rent etc would all come down as infrastructure gets shared. The cost of music royalty would however be the same for a small format as for a big format. This anomaly has already been pointed out in response to question 1 and the same must be corrected in order to truly achieve the growth of radio.

Businesses should be driven by market potential. However, if the government wants to make sure that broadcasters do not use the multiple frequencies to offer the same format of music, it may want to make it a pre-condition that the 2<sup>nd</sup>, 3<sup>rd</sup> etc channels are each of a different format. For eg., if the 1<sup>st</sup> channel is a new Hindi music channel, then the 2<sup>nd</sup>, 3<sup>rd</sup> etc channels cannot be a new Hindi music channel. They have to be of a different format. A list of different formats can be developed in consultation with TRAI and the government. If the government does not want to get into deciding whether the format is indeed different or not, an independent regulator (like TRAI) could be used to decide on matters.

TRAI had probably thought of this programming format-centricity when it recommended that multiple frequencies be allowed.

Allowing multiple frequencies to broadcasters is critical for further growth of the medium. The single biggest constraint for radio is the lack of programming variety. Any other method of ensuring programming variety – for eg, reservation of frequencies for certain formats – will be an inefficient method of allotting a

scarce resource like frequencies. It has been proven through the experience of our past that market forces are the most efficient allocators of scarce resources.

A quick look at the TV business will justify what is being said here. Firstly, there are at least 10 large broadcasting groups in the country (Star, Zee, Sony, Sahara, Network 18, Times, Sun etc) – hence there is no monopoly. In fact, the largest channel now gets a TRP of less than 6 for its top rated show. Secondly, each group offers a bouquet of channels – Zee may probably have more than 25 channels. Here is the interesting point – no two channels are alike. With the result that there is so much variety on TV and this is indeed a proud feel for the country. Almost no potential viewer is left out. The TV industry represents the plurality of the country. The radio industry is the exact opposite. And this need not be so.

On the subject of a national cap of 15% as at present, it is the industry's view that there is no need for any such cap. Firstly, there is now a Competition Act passed by Parliament and this will ensure that there is no abuse of any monopolistic position. This will provide the overall cap on any one broadcaster. Secondly, as explained with the example of TV, there is anyway no question of a monopoly emerging. And lastly, the government must not single out only the radio industry for tough provisions – why is the same cap not prescribed for TV or indeed any other industry (outside of the media space). There are many scarce resources (minerals, telecom frequencies etc), but businesses are allowed to expand through more allocation of the scarce resource (mines, radio frequencies etc).

4. *If the FM radio broadcast is decided on district basis, what should be the % of all channels or % of number of districts to be permitted or any other suggestion?*

The response to question 3 covers this question. To summarize, overall cap on district (or state) level frequencies should be governed by rules prescribed under the Competition Act.

5. *Do you feel that the present FDI cap of 20% and methodology of calculation in FM radio broadcasting needs change? Give your comments with justification.*

In response to BECIL's observation that a lot of investment is required in the radio sector – and that is the logic for allowing higher FDI – we would like to disagree. FDI only flows into a sector when there is viability. If there is no financial viability, neither FDI nor domestic investment will flow. This has been seen in Phase I and Phase II so far. Most investments in radio are funded out of promoters' equity. In only 2-3 cases has any FDI become available and the experience of these players has been anything but satisfactory. Hence the question of FDI coming in only comes into play once the viability in the industry is ensured

The amount of FDI permitted should really depend on whether the channel is a news channel or not. If it is a 100% news and current affairs (including sports) channel, then the FDI has to be tightly restricted. Given the fact that in newspapers and news TV, the FDI is limited to 26%, it may be prudent for the government to continue with a similar cap. On the other hand, the government may want to continue with the present cap of 20% if it believes that the radio sector is an especially sensitive one.

On the other hand, for entertainment channels which do limited news coverage (our case for allowing news is built later in this note), the FDI limit should be raised to just under 26% (say 25%). The FDI limit is being proposed at 25% keeping in mind the fact that this is enough for any serious foreign radio broadcaster to enter the country. But it is not so high as to give a very large control to the foreign partner. Radio is a special business and maintaining a strong domestic control is required in India given the unique importance of the medium here.

What is probably more helpful for the radio industry that the government must help small broadcasters (in D category towns) to raise finance from PSU banks. Given the fact that radio is a free to air medium, and is the entertainment medium for common poor people, the government should make provisions where loans to radio stations are considered to be a part of "priority sector" lendings. A similar effort aimed towards the film industry has helped the industry raise finance legally and has led to the prolific growth of that industry.

6. BECIL has raised the issue of giving relaxation in annual fee to North East and J&K region. Do you feel the need for relaxation in yearly commitment based on one time entry fee (OTEF)? If so, please elaborate your comments with justification and time for which such concessions may be considered?

As already covered in the answer to question 1, we agree with this suggestion. And in fact it requests the ministry to help solve the issue of music royalties too to make such stations viable.

7. Do you feel that relaxation in present networking guidelines will improve the quality of programs produced and viewers' experience? Should there be cap on number of programmes which can be networked on regional or All India basis? Give your suggestion with justification.

Limitless networking is required to ensure viability of smaller stations. Networking helps reduce setting-up costs (by reducing the infrastructure requirement of smaller stations as infrastructure is shared with the bigger station) as well as operating costs (lower electricity costs, rents, payroll etc). Without full networking being allowed, most D category (and many C category towns) will be un-viable. What must be remembered is that the cost of setting up and operating radio stations is so much more than TV stations – and the revenue potential is only 1/14 of TV (share of radio 3% v/s 42% for TV).

There really is no reason for networking not being permitted. Networking is allowed to AIR. Why should there be any discrimination against private FM broadcasters – whose role is specifically earmarked in the 5-year plans?

As far as concerns on quality of programs go, program quality will only improve if it is produced at bigger centers. With more senior programming people being based in the larger towns, the quality of programs will only improve.

The only compromise that will necessarily be made is that the extent of local programming will drop. Most broadcasters would do 8-10 hours of local

broadcast and would network the remaining 8-10 hours. But what's wrong with this? TV channels are allowed this all the time. CNBC runs its US programming in the night. History channel is all foreign content. What happens if networking is not permitted – station viability is affected and radio does not spread across the country – it stays in the main markets.

8. *Whether there is a need to modify present guidelines to permit News and current affairs on FM radio broadcast? If so, the justification, duration of news and current affairs programmes and method of effective monitoring may be suggested in your response.*

The answer to this question is a resounding yes.

The question that needs to be answered by the government really is: Why is only private FM singled out for such a harsh policy? Every other medium is allowed to do news. This is blatant discrimination against private broadcasters – and that too when the 5-year plan documents clearly spell out the important role for them.

Lets look at two of the government's patent arguments:

The first argument is that security concerns. What if a broadcaster mentions something on air and the damage is done. No amount of damage control can help recover from this damage. This is indeed true. If a radio broadcaster behaves irresponsibly, then it can do a lot of damage. But the question is: Cant TV channels do the same? How do news TV channels sensationalize all matters? The footage of TV channels during times of crises (riots, floods...) is so inflammatory. But the government does not restrict them from doing news. In fact, free media is India's pride. The plurality of views expressed by various TV channels is what makes us a proud country. Radio broadcasters are all respectable business houses – every director on the board of a radio company has to be pre-cleared by the Ministry of Home Affairs (just as for TV news channels). If a radio broadcaster misbehaves, feedback from the listeners is immediate. The recent case in Delhi – when a jock on a private broadcaster made certain remarks against the people of a certain region – proves the point. The case came to note not because of

monitoring by the government, but because of the alert public. In smaller towns, the public reaction is even swifter. People in smaller towns are known to be more active – be it in elections or in protests against wrong doings.

The 2<sup>nd</sup> argument is about not being able to monitor radio across the country. Firstly, in this country, we have a liberal media policy. We do not prescribe any censorship of media. We trust media to be responsible and if they are not, there are penal provisions for the same. Secondly, while it is indeed true that all satellite TV channels can be monitored in Delhi, does that ever happen? With more than 140 TV news channels on air, is it possible at all to monitor all of them on real time basis? It's only a theoretical point that the government has against radio broadcasters. And even this theoretical point is now invalid. With a simple technology, all radio broadcasters across the country can be heard on the internet. If monitoring is required, all stations can be monitored sitting in Delhi. Thirdly, all radio broadcasters are required by policy to maintain 3 months of recordings – if the government gets any complaints, they can use these recordings to monitor and find out the truth in the complaints.

There really are no arguments against allowing news and current affairs. The fact is that the government has adequate controls on private broadcasters to prevent any irresponsible behavior. For eg, the entire license fee is collected by the government in advance (OTEF). So if a broadcaster continues to misbehave, the government can simply cancel the license and keep the OTEF. This is a very significant financial deterrent to irresponsible programming.

Then there is the question of level playing field. Why is AIR allowed to do news? Why is satellite radio allowed to do news? Does a 100% foreign owned Worldspace inspire more confidence in the government than trusted Indian enterprises?

Here's another problem. The government itself cannot define news and current affairs. If there is a bomb blast – or floods – in a town, should radio cover the matter? Technically no. But the government itself uses private broadcasters to address the public. If a broadcaster is a sponsor of a college festival, can it

broadcast live from the college? The government is not sure but in one case reportedly, the permission was denied. Is a college event news and current affairs? If a film star gets married, is it news or is it entertainment? Is cricket news or is it entertainment. The fact is that there is no definition of news and current affairs. In no medium, in no country, is there any separation of news and current affairs from programming content.

The government has had 5-6 years of experience with private broadcasters. That experience has been very encouraging. Radio broadcasters have conducted themselves in an exemplary manner. Radio has behaved responsibly. With the exception of one incident in Delhi, there has been no reason for the government to worry about irresponsible behavior of broadcasters. Compare this with the experience from TV channels.

So the answer to the question of whether news and current affairs should be allowed is simple. For general radio frequencies, news and current affairs must be allowed at least to the extent of 6-7 minutes an hour. This is the minimum requirement that even general entertainment channels have. A separate category of channels may be created called “news channels” which may need to be separately registered with the government. These channels would be permitted to do full broadcast of news and current affairs and sports.

With respect to the suggestion that news broadcast by AIR and DD be used as the source for news by private broadcasters, it is both unfair and too cautious. Most existing radio operators come from media groups of significant repute. Why should they not be permitted to use their group resources? Why should they not be allowed to use reputed TV channels or wire services? We therefore disagree with this recommendation.

9. *Do you feel the need to compare regulatory framework of FM radio broadcast with satellite radio? If so, please give your views on the issue of non-level playing field as raised by FICCI in reference to FM radio broadcast with satellite radio with justification.*

Yes, this is a crucial point. Let's first look at how the playing field is uneven.

Satellite radio is allowed the following:

- 100% FDI (Private FM: 20%)
- No OTEF. No License Fee (Private FM paid Rs 1300 crores in OTEF and migration fees. Plus they spent about Rs 700 crores in setting up the stations. FM industry 4% of revenues as annual license fees – subject to minimum of 10% of the reserve fee).
- No restriction on news & current affairs (not allowed to Private FM)
- 40+ channels from one broadcaster (only one allowed to Private FM)
- National coverage (only local coverage for Private FM – technology related)
- No restrictions on tradeability of license (Private FM has a 5 year lock-in)

First and foremost, we would like to protest against this favorable treatment being given to satellite radio. As if this was not enough, the satellite radio broadcaster is now seeking permission to have terrestrial repeaters. Which in effect will make them compete with FM on a direct basis. If this is done, what happens to the viability of private FM broadcasters? What happens to the investments of Rs 2000 crores that private FM broadcasters have made?

It is the suggestion of radio broadcasters that the same conditions apply to satellite radio as are applicable to them. FDI must be curtailed to the same limit. OTEF must be charged – the exact formula can be worked out. Maybe the aggregate of what the radio broadcasters have paid should be the OTEF for a satellite radio broadcaster. Annual license fees should be charged at 4% of advertising (as for FM broadcasters) and 20% of distribution revenues (private FM is free to air). It should be remembered that Worldspace is a monopoly player in the satellite radio space and it is in a position to charge exorbitant rates to subscribers. A high revenue share on distribution revenues are thus justified. And news and current affairs and multiple frequencies be permitted to private FM. Tradability of license should also be permitted.

The satellite broadcaster is likely to state that their listeners need special receivers which are expensive. But that is a technology issue. There are advantages and disadvantages in satellite technology. On the one hand, it needs special receivers. But on the other hand, it is available across the country (and in fact internationally). Private FM broadcasters are limited by signal coverage. Hence they have to set up a studio in every station and hire local staff everywhere. There is need to keep the two services distinct while still ensuring each one delivers to its potential.

It is our plea that this discrimination against them be stopped.

### **Technical issues:**

1. *Should there be a cap on maximum number of FM radio broadcast channels/service providers in a city? If so, what should the number be and basis thereof.*
  
2. *Do you feel that prevailing co-channel spacing of 700 to 800 KHz is most optimal and necessary for FM radio broadcast without interference? Can co-channel spacing be reduced without affecting channel transmission? Give suggestions with justifications.*

The answer to this question also has been covered in a previous section. To summarize, we feel that at present the 800 KHz separation should be maintained. This is largely because of the quality of receivers that most people in our country have. Lesser separation will lead to disturbance and inability to tune in clearly to a particular channel. Even with 800 KHz separation, all frequency needs of the industry can be taken care of. As and when the medium develops and the quality of receivers improves, the separation may be reduced to 400 KHz and the number of channels doubled.

In the meanwhile, the separation of 400 KHz may be allowed between neighboring towns as that would not lead to any major interference.

3. *Should we continue to mandate co-location of transmitter sites or the individual broadcaster should be left to plan as per its business model? In case individual broadcasters are permitted to set up their own towers, should the sharing of such towers be mandated to other operators also, subject to technical feasibility?*

It is clear that co-location is a more efficient method of using a scarce resource like radio spectrum. Hence it should be made compulsory.

However, a couple of changes in current policy are recommended.

Firstly, since the common infrastructure takes a long time to set up (more than 1 year) and since broadcasters are put to severe financial burden on account of this (the OTEF is collected in advance by the government), they should be allowed “interim” set up in all towns. This means that they should be permitted to set up their own individual transmission set-ups till the time the common infrastructure comes up. During this period of time, some relief should also be provided in the technical specs. Especially the EHAAT specification. The interim set-up usually takes up to 6 months to set up and this may provide some financial relief to broadcasters.

Secondly, the common infrastructure should not all be limited to only one transmission site. If there are 12 frequencies in a market, maybe two separate transmission sites may be created, each hosting 6 channels. If more come up, they may be hosted on other transmission towers. This is what is done in most developed markets. As has been seen in the telecom business, the value add in the telecom business (and also in the FM business) does not come from the infrastructure. It comes from programming and branding. FM broadcasters should be in a position to choose the transmission site – much the same way as satellite TV channels are allowed to choose the satellite they use for their broadcast.

4. *Is there a need to mandate reference co-location offer for better transparency and uniform treatment to all the stakeholders? Give suggestions with justifications*

Yes, there is need to allow broadcasters to choose the common transmitter vendor. At present, the only option given to them is AIR. But this cannot be mandated. As in any business, this is a choice that the broadcasters have to exercise.

However, the experience of the past suggests that broadcasters may not be able to come to a conclusion on who the common infrastructure provider should be. This would lead to a delay in the launch of the service, thus sacrificing the interests of the listeners and blocking the frequency unnecessarily. It also penalizes serious broadcasters who may want to launch their service early. Thus, two things need to be done: Firstly, interim set-up should be allowed before the common facility comes up (as discussed earlier) and secondly, an outer time limit needs to be specified for private broadcasters to choose their infrastructure provider. If they cannot make their choice in time, then the government may mandate usage of AIR facilities.

5. *Are tower and space sharing guidelines existing at present transparent and functioning effectively? Do you suggest any modifications to existing guidelines to improve effectiveness of sharing?*

The rentals that are fixed for tower and space are done unilaterally by Prasar Bharati. In many cases, there is no co-relation to the real market rates in the area. This process needs to be consultative. In many ways, the behavior of Prasar Bharati is monopolistic in nature and a type of abuse is inherent in the fact that it is the chosen exclusive host for the transmission site.

Apart from this is the entire issue about co-operation from AIR. There have been innumerable delays on account of the lack of co-operation from AIR.

There are delays because AIR refuses to allow work on the tower to start, refuse to take down their antenna on time and put other last-minute constraints on private FM broadcasters. Such high handed behavior can either be put down by fiat or by market forces. As has been said earlier, we would like the option to go with private tower companies

6. *Do you feel that the present arrangement of system integration work being done by BECIL is satisfactory and can be adopted for phase II FM radio broadcast as well? Give suggestions with justifications*

What applies to Prasar Bharati with respect to the tower and land applies to BECIL with regard to project implementation.

Private FM broadcasters are broadly unhappy with both the time taken by BECIL to deliver the projects as well as the quality of the work executed. Now when the projects have been delivered to us, we are not confident about how good the quality is and how long the infrastructure will run without trouble.

Private FM broadcasters are also unhappy with the rates that BECIL has managed to get from vendors. It is a known fact that private broadcasters would have managed to get better rates and a better delivery time from vendors of infrastructure equipment.

It is the view of the radio industry that there should be no constraints on the private FM broadcasters to compulsorily go with BECIL as the project integrator. This decision should be left to the broadcasters to decide. An outside time limit should be put on this decision and if no decision can be reached, then the order may be placed with BECIL for integration work.

### **Other Issues:**

1. *Government policy guidelines on FM radio broadcast details policy issues. Similarly grant of permission agreement is draft format of agreement between*

*I&B ministry and the successful bidder. Do you suggest any changes in view of discussions in chapter 5 (other than discussed in earlier chapters) in these documents to facilitate FM broadcasters to speedy rollout services and improve service efficiency?*

The current policy allows 9 months for broadcasters to sign the GOPA with the government. This is too long a period of time and should be brought down to about a month or so. This will reduce the time taken to operationalize the stations and will make the investments productive sooner.

### **Answers to important questions not specifically asked in the consultancy paper**

#### *1. Tradability of licenses:*

At present, there is a lock-in of 5 years for the main promoter of a radio company. The main promoter is not allowed to transfer even one share to any other party for the first 5 years. The rules for transfer after 5 years are also unclear – it is subject to governmental permission but the rules for such a transfer to be allowed or disallowed are not specified. Smaller shareholders are however allowed to transfer their shares to other parties.

This lock-in creates several problems. Firstly, since debt is usually not available to radio broadcasters (given viability problems), most capital deployed is equity capital. If a broadcaster wants to raise more capital, it has do so only by issue of fresh equity. The main promoter/s has/have to maintain at least 51% of equity holding. If this limit has already been reached, then the promoter has to invest new funds in line with the funds required. This is a heavy burden and works against small broadcasters who may not be that well funded.

It is a business requirement that share capital changes hands. A promoter may want to sell part of his shareholding to invest in other businesses or to get a new strategic partner in. Shareholders increase and decrease their

shareholdings all the time. The only reason that the government has specified this lock-in is to avoid any speculation that may happen post bidding. In other words, a successful bidder may be tempted to sell-out to another person who pays more. This is indeed an area of worry.

However, the phase II policy almost completely cut out any speculative bidding possibility. By asking for 50% of the bid amount in advance and by also asking for the balance 50% in advance in the form of a BG (in the case of most broadcasters, this BG is fully funded), the non-serious speculators are already out of the process. It is a well known fact that almost all bidders of Phase II were serious bidders.

Another fear that the government may have is that a temptation to sell is created because licenses are won at different levels of OTEF. The lowest bidder may have bid only 25% of the highest bidder and this creates a temptation for him to sell out.

On the other hand, buying and selling shares and businesses is part of any business. In fact mobile operators are allowed to buy and sell equity and thus acquire or sell out their circles of operation.

One way to avoid speculative buying and selling of frequencies is to have a lock-in period but for only 1 year (as in the case of preferential share allotments).

Another option is to specify that a successful bidder has to be involved in the project at least till the project roll-out is complete. This will make sure that a successful bidder has ample time to think of the business and only take the decision to sell on the basis of business reasons.

Whatever the way, a 5-year lock-in is a very harsh license condition and the same should be diluted.

2. *On floor of bidding being 25% of the highest bid of the city, with all bids lower than 25% being rejected.*

There are pros and cons in raising this threshold of 25%. Raising it would make the costs of acquiring licenses more uniform and may help reduce any speculative selling of frequencies post bidding (if permitted). On the other hand, a wider band allows different bidders to assess the market potential differently and take an appropriate approach to bidding. Some operators prefer a high risk bidding strategy where they are willing to lose some bids, but would like to win other bids cheap.

3. *Automatic renewal of license post the initial period of 10 years:*

It is a very harsh term in the existing GOPA that the radio licenses of existing broadcasters will not be renewed automatically at the end of the first spell of 10 years. This would probably make India the only country in the world to have such a condition.

In almost all countries of the world that we are aware of, automatic renewal of licenses is an implicit part of the radio business. As long as the broadcaster has behaved responsibly, renewal of the license is automatic.

The government itself followed this practice when it announced the launch of phase II. Phase I broadcasters automatically migrated to phase II without the need for fresh bidding. All that they were required to do was to pay a migration fee which was the average of the OTEF paid by all the new successful bidders.

Likewise, we would agree with your recommendation that the government charge a financial sum of money at the end of the first period of 10 years to extend it by another 10 years. This sum should normally be a smaller sum of money than the OTEF paid the first time; however we would be OK with TRAI's suggestion that broadcasters pay the same sum to get 10 more years.

Even in the telecom space, renewal of the telecom license is automatic. It is inconceivable that existing brands would simply cease to exist at the end of the license period.