Obviously there will be an impact on the revenue of Auckland stations with the introduction of 2 competitors. The Corporation has intimated that if ZM is not a successful applicant, it would apply to change the warrant to non-commercial except for limited sponsorship and the Corporation intimated that it would desire to carry exactly the same programme material without the advertising or with much less. That will be the subject of an application to the Tribunal. Such a policy it was argued, supported the grant of the Corporation's application so that the ZM AM operation would cease immediately, or after a period of simulcasting.

Whether or not the Corporation were successful in its FM application the effect will fall on ZB as one of the Auckland stations. It can be expected however, that some of the revenue which previously went to the ZM station may well be captured by 1ZB. We therefore consider that the impact on 1ZB which is a heavily informational and broad range station will not be great. It is a phenomenon of commercial radio that many older established all round family stations do retain their audience and their place in the market despite the addition of new competitors for a number of reasons which we need not go into here. We believe that will be the case with 1ZB.

If the Corporation maintains its existing operation on ZM but not on a fully commercial basis, then it will have to carry that as a public service element of its broadcasting which it chooses to do as if it was introducing a new service. Nowhere else in New Zealand, so far as the Tribunal is aware, does the BCNZ find it part of its public service to provide a commerical type format without commercials in order to serve a particular audience. Indeed evidence we heard in Hawke's Bay indicated that when it became commercially undesirable to have one of the two stations there catering for a younger audience, this was readily sacrificed for a geographical division of the market.

The effect of not granting the application on the Corporation's finances is not a vital factor. Under this heading we are required to consider the effect the grant of any application will have on the Corporation's services. Granting any of the other applications will have no effect on the 1ZM service. That will be determined, because of the direction of the Minister, by the Tribunal at another hearing. Granting the BCNZ application would reduce the Corporation's AM services by one. The direction requires that the BCNZ application be dealt with on its merits, along with the merits of the other applications. The possibility of 1ZM remaining as a disruptive factor is too speculative to weigh much with us.

In the immediate future the impact of the grant of the warrant to the Corporation would be more detrimental on its finances than not granting the application.

The Corporation, without the ZM–FM warrant will be able to commit its available funds to the priority given by the Minister of Broadcasting in paragraph 2 (c) of the Direction of 27 October 1981 for the extension of the Concert Programme.

It is also possible that before long a policy will be formulated on licence fees which will enable the Corporation to assess its income from this source on some regular basis and make its allocation accordingly.

If it were to cease its fully commercial operation it is likely that the programme talent and management could be moved to other stations which the Corporation admits it has a hard job to find good staff for these days.

The mobility of radio staff is such that it is quite likely that some of the Corporation's employees will find themselves working for one or other of the new stations, thus solving any problem of overmanning.

The concentration of the resources of the Corporation on its 1ZB flagship in Auckland will make it a formidable competitor.

We are not satisfied with Mr Jenkins evidence of the impact on Radio New Zealand's finances of starting up or closing down stations. If we were to believe him it would almost always be argued that it is financially good to start up stations and never to close them down. As 1ZM was one of the Corporation's worst performing stations, we were unconvinced by his arguments. We are entitled to look at the long term performance of the station rather than any short term improvement in performance.

Much questioning took place of Mr Jenkins regarding the effect of the closure of 1ZM as a commercial station. Generally the Tribunal formed the view that there was a lack of understanding amongst Corporation witnesses as to the relationship of fixed, semi-variable and variable costs. It appears that there is a belief that, as further stations are added to the commercial network, fixed, Head Office type costs can expand, even if slightly, but that as the network is reduced, the reverse cannot be achieved.

We are of the view that the ultimate test of a commercial station's financial viability is the figure described as "gross margin surplus" by the Corporation. (Even this figure is obtained before taking into account a share of unapportioned overhead related to the full commercial operations of Radio New Zealand.)

Much emphasis is placed on the financial effect on RNZ if their FM application succeeds. This has been stated as enabling the parallel funding of non-commercial FM by the surplus arising from commercial FM. The first year loss projected by RNZ will take a further 1.8 years to recoup. In other words, the commercial FM operation is projected not to make a positive contribution to RNZ finances until 2.8 years have elapsed from the commencement of the station. This first year projected loss of $290,994 together with a projected capital cost of $308,800 will require cash funding of approximately $600,000 by the Corporation.

(d) The needs of New Zealand or the locality or localities proposed to be served, in respect of broadcasting services.

These will be the first FM stations.

As it will be some considerable time before the Auckland market could possibly support another commercial radio station, some care had to be given in the decision as to whether there should be two competing stations providing for the same age group or whether they should try to deal with different musical tastes, at least as represented by the age of the audience.

We came to the conclusion that it would be wasteful of resources to have 2 stations such as Stereo FM and ZM competing for pretty well the same audience while leaving audiences both older and younger, largely uncatered for. This is also important since it seems that it may be several years before any non-commercial FM service is provided by the Corporation and therefore people over 40 may well have to wait a long time for any music that fell within their taste range.

Likewise, if, as was urged upon us, Metropolitan and Enterprises were granted warrants the younger audience would have no FM service to their musical tastes.

We have briefly touched on Enterprises block formatting. We do not think it would work commercially. It appears to involve a dated concept of commercial broadcasting which they acknowledge is not being followed anywhere else. It has been superseded by providing familiarity of sound and a limited range of music for a designated audience. We do not consider it likely that the audience will tune in and out to hear one kind of favourite music at particular times. If the disparate types of music are run together then the turn-off factor would be fairly high.

(e) The financial and commercial ability of the applicant to carry on the proposed service.

Stereo FM was soundly based financially, is likely to receive public support and is strong enough to withstand some adversity. Its commercial ability is one of its strengths. It has been well structured, has developed plans for promotion, established capital sources, a contingency fund and substantial working capital. It has planned a long term commitment. Mr Curle is experienced and will bring vigour to its sales and marketing and the company will be ably led.

Financial information for Enterprises had been put together by Mr Hagen, a well qualified chartered accountant who had to rely however, on the information provided to him. That information was not always complete. The company lacks in-house financial and management resources. It is reliant on Mr Parkinson for both programming and computer guidance.

There was some uncertainty as to the source of funds needed to establish the station. A substantial personal advance was to be made by one director if institutional sources of loan moneys did not materialise. There appeared to be an over-reliance on borrowings.

Metropolitan proposed joint managing directors Messrs Egerton and McKay with Mr Egerton as chairman of a well chosen board. The company was proposed to be a private one consisting of 14 equal shareholdings with provision for an allocation of shares to staff. The company was concerned that a public company could lead to a concentration of ownership of independent radio into the hands of one or two key groups. We were impressed not only with the calibre of the joint managing directors and other directors of the company but with the approach the company had made to the application. The Tribunal considered it to be realistic and practical. Although it would be aiming for a section of the audience that was not as attractive financially as a younger age group, its approach seemed likely to secure their support and that of the advertisers who wished to target that audience.