

assessment the effect on the BCNZ's revenue would be \$200,000. Mr Jenkins, giving evidence for the Corporation, estimated the effect would be in the order of \$500,000.

The Tribunal recognises the difficulty of estimating not only the level of the future income but also from where it would be derived and the extent of the effect on the revenue earning potential of the Corporation. After considering the applicant's survey of businesses and Mr Ballantine's empirical study of 16 business houses in Napier and Hastings, we were unable to find that there was any conclusive evidence for or against the advertising support for the applicant station.

This means that estimates of the effects on the finances of the BCNZ would necessarily be subjective.

The Tribunal is, however, satisfied on the basis of the revenues of the BCNZ from the area, and bearing in mind the element of competition between the two existing stations that there is no unrequited demand for advertising to the extent claimed by the applicant. The Tribunal concludes that the loss of revenue to the BCNZ will be closer to Mr Jenkins' figure than Mr Ballantine's. The per capita spending on advertising in the area supports the contention that the applicant would be entering a market where radio advertising spending is already at a high level.

This estimate is supported by our examination of the figures in Invercargill and Palmerston North following the establishment of stations there in essentially single station markets. We have accepted the information provided which assesses the effect against the trends in all other stations of the Corporation for the same periods and have concluded that the effect in each of those markets would translate to a figure of more than \$300,000 in Hawke's Bay. In addition we must take into account that there have been 2 stations, even if one is not fully commercial, exploiting the advertising market in Hawke's Bay. We conclude that much more revenue would have to be taken from the BCNZ to satisfy the estimates of revenue required by the applicant than Radio Hawke's Bay estimated, even taking into account population projections.

We also believe the company would experience much more difficulty in establishing itself in the market than it has estimated. The ratio of stations to population would be comparatively high. But whether or not it was successful it would seriously deplete the revenue available to RNZ commercial radio and have a direct and serious effect on the Corporation's radio revenue, and thus the services in the area.

The effect on the Corporation's financial position of a drop in revenue is the same whether Radio New Zealand has a surplus or deficit in local operations. But surpluses have to be obtained wherever possible to meet head office costs and support new commercial services. The Hawke's Bay commercial radio stations showed a local surplus (in 1980/81) of \$403,000 after contributing \$127,000 to apportioned Head Office administration costs. But there is nationally a much larger sum of unapportioned overheads which have to be met out of local surpluses before there is any real contribution to the surplus of Radio New Zealand. In other words, not all the \$403,000 is "profit" for Radio New Zealand. Furthermore, local non-commercial services cost the BCNZ \$506,000 in the 1981 year. While local surpluses cannot be equated in each area with the cost of local non-commercial services, that figure is an indication of a local element of the Corporation's national programme costs to be met from licence fees and commercial revenue. Licence fees have not increased for several years.

The diminution of revenue would set back the Corporation's capacity to develop FM concert programmes in Hawke's Bay, Waikato and Southland areas.

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

Under 80 (g) we discuss in detail the results of the surveys in assessing the needs of the people in the locality or localities proposed to be served. We are not convinced that there were any significant needs which would be met by this station which were not being met by the existing stations, while we acknowledge the advantage that people would have of a second or third choice at any one time of a somewhat similar programme even if it were sometimes better.

We also accepted that there would be some considerable advantage in an alternative news and current affairs service. We believe that that is one of the major advantages of bringing another AM service to the area.

Much was made of the elimination of Hastings/Napier rivalry. We accept the fact that there would be an advantage in a new station projecting a regional image while the existing

stations were essentially based on one of the twin cities. The existing stations broadcast local news and information as well as important regional news. The new station would face the problem of what to do in news, current affairs and information once matters of regional importance are covered. The "local" events of one city or town are likely to seem boring or trivial to the residents of another town. So a regional concept in Hawke's Bay competing with local stations in each of the major cities faces the problem of having enough local coverage to satisfy parochial interests but not so much as to deter listening. The problem was highlighted by the applicant's criticism made of existing services, that they were both too parish pump and at the same time duplicated local news items.

There is a need for FM radio services. That need will develop as these services are established in other areas. It will not be well served by this applicant obtaining an AM warrant. We expand on this later.

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

The financial structure and funding arrangements were satisfactory. It is likely that more difficulty than expected may be encountered in attaining and sustaining profitability.

Our experience in recent times has shown—and it is borne out by the figures in Invercargill and Palmerston North—that not only is there an underestimate of competitive capabilities of the Corporation whose performance in reaction to a new entrant can be impressive, but also that costs are likely to prove higher than expected.

The directors and management would collectively have the ability to face that situation, but audience and financial success may take longer than expected.

(f) *The likelihood of the applicant carrying on the proposed service satisfactorily.*

In broad terms the Tribunal is satisfied that a balanced and technically competent group of directors has been assembled. The Tribunal is aware of the operational experience and successes of Mr Parsonage.

We considered Mr Parsonage and Mr Folster to be men of considerable ability who would carry out the tasks with competence and efficiency.

As to the directors the Tribunal has no wish to traverse the individual impressions they made upon us. We must, however say, that the directors are adequate for the task of running the company.

We should mention the position of Mr Clarke, since he was questioned by the Chairman on his standards in relation to news reports which he broadcast over an Auckland station on one occasion, which were in breach of the Broadcasting Rules. He accepted only reluctantly that his judgment was wrong in that instance. We have placed no weight on that evidence, although we might have if he had been a working executive of the company. Those who put forward their past experience and reputation must expect some question to be raised if they choose to brush over any particular episodes which may not support the image they wish to present. We have, however, not taken any regard of those matters in relation to this application.

We were very impressed with Mr Folster, his ability to understand his responsibilities as editor and his judgment.

The involvement in news and current affairs places a cost on the situation which it might have difficulty justifying in economic terms. Although we believe Mr Clarke is sincerely committed to news, economic realities may place the depth of the news operation at risk.

(g) *The results of any survey available to the Tribunal.*

A preliminary qualitative survey gave the applicant indicative material from a group aged between 20 and 44. One of the conclusions was that the existing stations attempted to cater for too broad a range of audience.

The applicant produced both trade and general surveys in the area to support the application.

We are not convinced that the trade survey provides conclusive evidence as to the extent of additional advertising revenue that can be obtained in the area. We have no doubt that there is some untapped revenue, but it would be somewhat less than if the area was covered by a solus operation at present. The revenue obtained by 2ZK from its Hastings operations, in the light of the inhibiting factors on its market penetration (the broadcast of the Concert Programme) indicates effective selling in that area.

Neither the surveys nor the general evidence show any great dissatisfaction with the existing services. In fact, allowing for those witnesses who might be regarded as identified