Public Service Television at the Digital Crossroads – The Case of Austria

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Introduction

‘Intermission – media and media policy in Austria’ – is the blunt title of a sharp analysis carried out by two young Austrian journalists (Fidler and Merkle, 1999). Their résumé was radical: the Austrian state regulator failed to set an appropriate framework for a diverse media landscape. And the traditional workings of corporate consensus politics (Sozialpartnerschaft) led to mutual interweavings of politics and the media which paralysed the country’s media development such that private television was left stuck in the pipeline. In fact, the Austrian government was the last in Europe to support a state monopoly with the public broadcasting corporation, ORF (Österreichischer Rundfunk). Besides technical frequency limitations it has primarily been political inertia, but also the argument that private television via antenna would not survive economically which hindered the Austrian government from opening the market in free-to-air TV (Murschetz, 1996).

Much has changed with the new coalition government of the conservative People’s Party ÖVP (Österreichische Volkspartei) with Mr. Haider’s far-right Freedom Party FPÖ (Freiheitliche Partei Österreichs), inaugurated in February 2000. It took regulatory action in 2002 by introducing two new laws for increased competition in Austrian television broadcasting: the ORF law (Privatfernsehgesetz) covering regulation for any new competitors. Eventually, in February 2002, the commercial operator ATV was granted the third terrestrial TV-frequency band to compete with the two channels of the ORF, ORF1 and ORF2, on a nation-wide scale.¹

As expected, the reorganisation of the Austrian television market has also affected the state broadcaster ORF.² The new ORF law, which came into effect on 1 January 2002, basically commits the (still) monopolist to more quality in its programmes at the same time as it restricts its advertising.² It was no surprise that advertising restrictions and the demanded return to public service core-values aroused fierce resistance within the ORF. To support this, the ORF had the renowned Swiss Prognos

Abstract

The present article examines the impact of new digital technologies, services and markets on changes to television in Austria from a media-economics perspective. This article started from the assumption that the process of transformation towards digital distribution modes would make questions about the role and legitimacy of public service television in Austria more prominent than ever before. Since the technical development of digitisation steps up competition in the programming, advertising and viewer markets, the continued existence of public service broadcasting in Austria is at risk. Already facing strong competition from private cross-border analogue television, private digital services promise increased competition for the ORF, will take away advertising volume and accelerate the cost spiral for rights. The ORF will have to face these challenges as the regulator has assigned it the role of a chief enabler of digital television in the market segments for satellite and terrestrial transmission. This article argues that programme universality as leading principle for public service broadcasting faces a legitimacy crisis as digital competitors may better target minority demands in fragmented audience environments. It remains to be seen how far the ORF is able to being both distinctive and attractive to its target audiences, so to ensure its position into the next millennium. Affordability and reliability of technology comes as another critical success factor. For the time being, the continuous confusion about lasting, stable and interoperable receivers in viewer homes is the main cause for the poor development of digital TV in Austria. This is aggravated by excessive prices and the current difficulty in seeing any added value in new digital content. To conclude, much hope is put into the Digitale Plattform Austria, a working group of experts to produce a coherent and evaluable digitisation concept, that will take up these challenges in a competent way.

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Institute establish that the government would do better not to intervene restrictively in its fortunes. In addition, since economic prospects of private TV are categorised as unfavourable, a strong national champion would better reach the Austrian public with Austrian programmes and guarantee qualitatively superior broadcasts in the future (Trappel, 2001a: 13).

But how does digitisation affect Austrian television broadcasting? Who will be the dominators in the new market segments for digital TV? As for regulation, section six of the new private TV law now regulates the introduction of digital terrestrial broadcasting in Austria. There, the regulating authority, KommAustria, is entrusted with the elaboration of a digitisation concept. To aid it, the study group Digitale Plattform Austria (DPA) has been set up by the Government. Additionally, the new ORF law commits the ORF to providing its programmes via digital terrestrial and digital satellite delivery routes. The ORF is thus intended to be the pace-maker for digital TV in Austria. However, before the transformation towards digital television is started, critical issues need to be tackled. This is because digitisation raises questions of vital importance for the future of Austrian television. Therefore, a critical examination of requirements and limitations for digital TV is urgently necessary and should be on top of the agenda of the DPA study group.

**Table 1: Analogue TV equipment in Austria**

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>in 1000</th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total TV households</td>
<td>3,116</td>
<td>100</td>
</tr>
<tr>
<td>Cable connected</td>
<td>1,178</td>
<td>38</td>
</tr>
<tr>
<td>Satellite, DTH</td>
<td>1,362</td>
<td>44</td>
</tr>
<tr>
<td>Terrestrial analogue</td>
<td>567</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Triconsult 2001, author updates

**Table 2: Digital TV equipment in Austria (March 2001)**

<table>
<thead>
<tr>
<th>Equipment Type</th>
<th>in 1000</th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decoder</td>
<td>405</td>
<td>13</td>
</tr>
<tr>
<td>Decoder analogue</td>
<td>234</td>
<td>8</td>
</tr>
<tr>
<td>Decoder digital</td>
<td>196</td>
<td>6</td>
</tr>
<tr>
<td>Decoder with smart card</td>
<td>84</td>
<td>3</td>
</tr>
<tr>
<td>Reception of ORF Digital</td>
<td>50</td>
<td>2</td>
</tr>
<tr>
<td>Reception of Premiere</td>
<td>134</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Triconsult 2001, author updates

**Study Purpose and Research Scope**

The present article examines the impact of new digital technologies, services and markets on changes to television in Austria from a media-economics perspective. Essentially, it will focus on the following two central topics:

- Corporate strategies of positioning in digital markets.
- Roles and functions of public service television in the digital era.

Starting point of analysis will be an introductory overview of latest developments in the Austrian broadcasting market and a short description of technology changes caused by digitisation. Then follows a descriptive, up-to-date stock-taking of Austrian actors in digital television, depicting their offers in the respective market segments for satellite, cable and antenna. This will map out their underlying rationales for advancing into the digital arena. A further substantial aim of analysis is to discuss critical issues regarding necessary role changes in public service television on the threshold of the digital age. Here, the article will present two strands of discussion in the debate on the fulfilment of the social mission of public service television in the digital era: pressures on the propositions of universality caused by digitisation and market failure set to be overcome by digitisation. To answer this, it will be necessary to refer to approaches in economic broadcasting theory with a view to changes incurred by digitisation.

**Television in Austria: The Market**

Developments towards digitisation must be considered against the following three major aspects:

- Developments in TV equipment and distribution towards digitisation.
- Changes in regulation towards market liberalisation in analogue television.
- Competition from strong overspill of German TV programmes.

As for Austrian TV households, more than 80% of are equipped with cable and satellite, with many terrestrial households having switched to (analogue) satellite reception. However, there is still some 20% of households receiving programmes only from terrestrial, statistically notwithstanding those who dually use satellite dishes but are still equipped with roof aerials to receive ORF1 and ORF2. This is because the ORF channels are not transmitted via analogue satellite (DPA, 2002: 40).

And what about digital TV equipment? 13% (that is 405,000) of all Austrian TV households (3,116 million in total) have set-top-boxes in their homes to decode programmes transmitted via cable and satellite. 58% of these boxes are still analogue, 48% digital. In March 2001,
2% could watch ORF Digital via DVB-S and 4% receive the digital Pay-TV package of Premiere.

Secondly, television in Austria has long been synonymous with public broadcasting organised by the ORF. Under the technical conditions of limited frequency, the ORF was granted the only licence for radio and television broadcasting over to national frequency bands for analogue terrestrial television: ORF1 and ORF2. Insufficient frequencies of terrestrial airwaves was the initial significant barrier to a free television market and allowed the design for a monopoly in public television to appear appropriate. As mentioned above, most legislative proposals to liberalize broadcasting in Austria ended in deadlock despite various private initiatives and rulings of the Constitutional Court (Steinmaurer, 2000). It took until 1997 when the Cable and Satellite Broadcasting Act of 1997 (Kabel und Satellitenrundfunkgesetz – KSRG) created the legal basis for active cable television. ATV, which started as low-scale cable station Wien1, soon developed into the ORF’s biggest competitor. Today, it passes some 32% of Austrian cable-TV homes and 2% of digital satellite households (Ring, 2001: 24). Content on offer is a full-programme mix of local entertainment, news, business, talk shows, sports and light entertainment.

Although ORF has enjoyed a long-term monopoly from a supply-side perspective, it has faced increasing competition from extensive overspill of German TV programmes. More than two thirds of all Austrian cable and satellite TV households can receive most of the German free TV programmes and major channels. These programmes compete against ORF for audience shares, and – increasingly – for advertising budgets.

As for audience shares, Austrian cable and satellite households (80%) could receive an average of about 34 different foreign programmes in 2001, 31 of them in German language (ORF, 2001a). Despite this, the ORF has managed to keep both the German competitors and the Austrian newcomer ATV at bay. Two programme reforms in 1995 and 1998 could successfully win back primarily younger viewers who were lost to foreign competition, enlarge the distance to its competitors, and increase market share with primarily Austrian-specific programming. In 2001, the ORF (48%) could steadily increase its overall market share in multi-channel homes (adults aged 12plus), to the debit of its big German private competitors RTL (7%), Pro7 (6%), SAT.1 (6%), and the public stations ARD (3.6%) and ZDF (3.4%) (ORF, 2002). The ORF’s positive economics is mainly accounted for by well accepted informational programming, low-cost US-feature films and series, exclusive sports transmissions and an overall successful ‘Austrafication’ of programmes, that is a stress on innovative in-house productions aimed at the preservation of Austrian culture.

In 2000, ORF relaunched its TV design to reflect the different market positions of its two analogue channels. ORF1 is the dynamic entertainment and events channel for the younger urban target groups. ORF1 programming features sports, movies, international serials, comedy, entertainment and children’s programmes. ORF2 is the more traditional Austrian general interest channel, offering information, cultural and educational programmes, arts, Austrian traditional culture shows and more traditional fiction.

Digital Television: The Technology

It is well known that digitisation is making its entry into all media. Picture and video processing on domestic PCs have been customary for a long time. TV is also increasingly deriving benefits from digitisation. It alters the complete television value chain, i.e. the entire process from filming, recording, studio editing, and dissemination, to the reception and reproduction in the viewer’s home (Deutsche TV-Plattform, 2000). The essential advantages of digital TV for providers are frequency economies, i.e. higher transmission capacity, economies of transmission costs, improvements in reception in topographically critical areas, portable or mobile reception and the possibility of the transmission of audio and data services like Internet access or email via the TV screen. Digitisation is accompanied by substantial changes on the receiverside: digital receiver-equipment, a substantially greater palette of programmes and promised interactivity with TV services. Interactivity empowering the audience is intended to offer various uses, from programmes sent on demand (VOD) or selected from a rotating palette according to various set-times (NVOD), to the viewer actively participating in programming. Interactivity is also significant because programmes can be targeted at paying viewers and charged for individually. This is lucrative for pay-TV providers because it raises the possibility of direct programme marketing for a single payment. TV as pay-TV ranges from subscription to entire programme bouquets (pay-per-channel) to single payments per programme viewed (pay-perview). As a result, viewer subscription revenues supersede indirect financing methods via licence fees or advertising revenues (Friedrichsen and Never, 1999: 92). Moreover, as a result of digitisation, a continuing convergence of technical formats into multimedia and Internet-capable terminals is taking place (keyword: convergence TV). Then nothing stands in the way to technologically fuse the TV with PC and telephone and further develop the digital set-top-box, the receiver device for digital TV programmes, into a two-way, bidirectional interactive multi-media platform offering email, home-shopping, home-banking or tele-learning services (ORF, 2001b).
Digital Television in Austria: The Actors

Due to the lack of commercial television service providers, Austria’s development of digital TV is the dominated by the ORF and the market entry of German digital service providers.

ORF Digital

The ORF is the only genuine player in the Austrian digital satellite TV market. Building on its financial capacity and content wealth, the ORF has gradually offered its programme palette on digital satellite, leasing transponder space on Astra 1G. According to the ORF, it is Euro 7.2 million to transmit on analogue satellite, but only Euro 1.4 million on digital transponder (Zeiler, 1998). Within Austria, this move to digital satellite applies to the existing channels ORF1 and ORF2 (both encrypted), a narrowcast channel for tourism, weather and sports (TW1), a videotext channel (encrypted), all ORF radio programmes, and expanded regional television. Unfortunately, digital TV-broadcast programmes are encrypted and only accessible with an ORF-smart card. Only Austrian households paying the mandatory licence fee are entitled to receive these cards for their digital decoders. Even worse, only after payment of an additional one-off descrambling fee will they access the digital services.7 As for digital narrowcasting, ORF Digital represents a platform for future narrowcast channels, ideally for sports, education and culture offered as premium content. TW1 is the ORF’s semi-public digital narrowcast channel for tourism, weather, and sports, available free-of-charge in the framework of the digital bouquet of the German ZDF (ZDF.vision), also transmitting via Astra 1G. As for sports, TW1 is clearly intended to be a test-bed for commercially more attractive future sports narrowcasting. With mass-attractive sports like skiing and football remaining broadcast on its analogue mother channel ORF1, TW1 is slowly mutating into the ORF’s narrowcast minority sports channel. The Austrian lottery, casino gaming, and big newspapers are said to be buying up broadcasting time to finance it. Under the new ORF law, no licence fees must cross-subsidise TW1. Moreover, plans to introduce a digital narrowcast channel for culture (Kulturkanal) were projected and discussed but recently frozen because no appropriate business model was found (ORF, 2000). Again, the new law prescribes that the channel may only be financed by self-generated advertising revenues. This is obviously difficult for a culture channel. Given these phase-in difficulties for premium special-interest narrowcasting, it came as a surprise that the ORF was recently able to agree to contribute to BR Alpha, the digital education narrowcast channel of the German PSB Bayerischer Rundfunk, also digitally transmitting via Astra 1G. This joint operation provides room for indigenous Austrian ORF-productions in the fields of culture, education, science and technology and reaches a European audience.

The Future of The Antenna: DVB-T

Digitisation is also opening up new perspectives for terrestrial transmission. DVB-T is the technical standard which is supposed to bring up to five digital programmes on one channel on Austrian TV screens. The chronic scarcity of transmission frequencies could be removed at one stroke with the introduction of DVB-T. More choice, crystal-clear pictures and sound in several languages are also intended to render household TV more attractive in the future via stationary reception with roof or rod antenna. The new private TV law already foresees the politically chosen basic switchover scenario to DVB-T. As detected by a frequency-study commissioned by the Austrian Federal Chancellery, those frequencies which were found in addition to the new analogue frequency band, have been reserved for digital terrestrial television (Morgen, 2001).

In the run-up to this decision, disputes naturally occurred: the ORF demanded the still unused frequency band in order to switch over to DVB-T at an early stage (ORF, 1999). This would have avoided an expensive simulcast operation but would also have meant the end for national private television. By allotting the new national frequency band to analogue private TV, the government made clear that it had private analogue TV on the front-burner, leaving the ORF with additional local frequencies for the conurbation areas of Bregenz, Linz, Graz, Salzburg and Vienna for transmission via DVB-T. The ORF claimed that this action disapproved of the great plus of a country-wide third digital transmission band to create broader acceptance through greater coverage (ORF, 1999). The ORF’s roll-out of digital services is shown in Table 3.

ORF-Rationale For DVB-S And DVB-T

The ORF’s rationale for transmitting ORF programmes via digital satellite (DVB-S) and digital terrestrial (DVB-T) transmission modes is to fulfil the public service remit. All inhabitants of the country are to be evenly provided with ORF Digital. The particular topography of Austria is the reason why a complete supply via analogue systems would only be possible at unacceptable financial costs. Digital satellite TV then also makes possible the reception of ORF TV programmes in those Austrian households (4% of the total) which had no or only poor quality supply until now (ORF, 2001a; 2001b).

There are also more hidden reasons for the ORF’s entry into digital TV. First of all, globalisation is a pressure difficult to escape. Providers who do not offer their programmes all over Europe will soon be seen as identity-givers with a
predominantly national target-group reference, which, in the European, indeed global context seems somewhat contradictory. This pressure clearly applies to DVB-S but is equally clearly broken with in the ORF policy to transmit DVB-S programmes to Austrian households exclusively. Similarly, the globalisation pressure does not (yet) apply to programmes transmitted via DVB-T. Here, geographic universality is dedicated to local contexts, improving programme variety for mainly urban viewers. Furthermore, the new transmission paths would also bring cost savings since places where terrestrial networks are not present or not sufficiently developed or do not have the necessary transmission capacity are supplied at substantially more favourable costs by digital satellite or digital terrestrial TV than by further developing analogue terrestrial radio links (ORF, 1999). Thirdly and perhaps most importantly in the long run, is the fact that the ORF never closes doors to find new commercial sales routes for cross-financing its public service programme costs. As the former ORF director general, Gerhard Zeiler, unequivocally put it as early as 1997, new business fields open up for mixed-funded public service broadcasters such as the ORF, fields that can supply proceeds for financing the public service remit (Zeiler, 1997:6). This argument has further been strengthened by the ORF management following Zeiler. Correspondingly, profits gained from business activities are reinvested for public service programming and do thus legitimise the ORF transition from a public culture carrier into a profit-oriented multimedia organisation. Particularly noteworthy is the fact that the ORF calls this policy rather bluntly “reverse cross-subsidisation of public service core programmes from advertising revenues” (ORF, 2001: 38).

In essence, the ORF is embarking on a triple strategy of flexible adaptation to digital markets: technical innovation will bring greater reach and better fulfil the public remit, yet at lower costs. Whatever helps reverse cross-subsidising public service core programmes from advertising revenues (e.g. through proceeds from digital sports narrowcasting) is welcomed if consistent with existing law.

The Competitors: Digital Pay-TV

While the ORF is heading for leadership in the direct-to-home segment of the digital TV market, the Austrian market for cable TV is also gradually switching to digital technology. In September 2001, UPC Telekabel Wien, Austria’s largest cable TV provider and subsidiary of the Amsterdam-based cable operator United Pan-Europe Communications (with a 95% share, the remaining 5% being owned by the Vienna City Council), began broadcasting digital TV in Vienna via one of the biggest and two-way-capable networks in Europe.9 UPC’s basic offer includes 50 digital TV channels, 40 digital audio channels, near VOD, an interactive TV application with web contents and email via TV. Each subscriber gets an email address and can work directly on the TV screen with an infrared keyboard. However, that digital cable is still in its infancy is mainly due to the fact that the Austrian cable TV market is highly fragmented. There are more than 250 operators, but only about 100 of these have more than 500 subscribers. In contrast to Germany, where Deutsche Telekom operates a nation-wide network, Austrian cable TV network-providers tend to operate on a regional or local basis. About 19,000 Telekabel customers in Vienna have switched to digital TV during the winter months of 2001/2. With altogether 920,000 cable customers (30 September 2001), UPC has huge potential to drive up digital subscriptions.

The pay-TV service of Premiere World, partly owned by the German Kirch-group and Murdoch’s BSkyB (22% in April 2002), has also gone digital. Premiere offers TV-adapted top movies, sports, live concerts, documentaries and sex on three multiplex-channels. The programmes are shown time-shifted so that subscribers can choose

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Table 3: Roll-out of ORF Digital

<table>
<thead>
<tr>
<th>Channel</th>
<th>Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>TW 1</td>
<td>12/1997 TWI, non-encrypted digital tourism, weather and sports channel, free-of-charge via digital satellite Astra 1G</td>
</tr>
<tr>
<td>ORF Digital Teletext</td>
<td>1/1998 Videotext service</td>
</tr>
<tr>
<td>ORF Digital (DVB-S)</td>
<td>8/2000 Decision on STB-standard ‘d-box’, start of encrypted transmission of ORF1 and ORF2 as regular service ORF Digital via digital satellite Astra 1G</td>
</tr>
<tr>
<td>ORF Digital (DVB-T)</td>
<td>1/2002 Discussion on piloting of DVB-T and establishment of DPA Study Group</td>
</tr>
<tr>
<td>ORF Digital (DVB-T)</td>
<td>1/2003 Launch of DVB-T planned for 2003</td>
</tr>
</tbody>
</table>

Source: Lossing et al. 1999, author up-dates

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9 UPC began broadcasting digital TV in Vienna via one of the biggest and two-way-capable networks in Europe.
from three options at any one time. Furthermore, four pay-per-view channels of top movies and sports events are on offer. Interestingly, Premiere is not broadcast via the Viennese cable network of UPC Telekabel (by April 2002).

**Changes in Public Service Television**

What role remains for public television in the digital era? To answer this theoretically, a clear definition of the public interest in the digital age is to refer to the central principles of public television, the public remit for full service provision. Public service television is legally obliged to achieve geographic, audience and programme universality. While geographic universality means that broadcasts are available throughout the whole country, audience universality means that viewers of all social grades are to be addressed by public service television. This is opposed to commercial television where younger viewers and viewers from social grades A and B are particularly prized for their spending power. Finally, programme universality serves as guideline for public service broadcasting and covers the commitment for catering for all interests and tastes, including ethnic, religious and other minorities. However, by following the ideal that public service broadcasting should have something at some time to offer to everyone for the viewing nation as a whole, public service broadcasters are forced into a balancing act: to survive they need to produce both distinctive niche products which the rest of the marketplace does not provide (including minority programming) and cater for as wide range of tastes and interests as possible to justify the value of public funding. This balancing act is almost impossible to achieve as it has both to offer people something which they cannot otherwise see, serve minorities and fulfil the function of a national culture-identity carrier for majorities. And digital competition intensifies these challenges: new players approaching on the scene will sharpen competition in multi-channel television environments and may over time marginalize public provision through their dominance of content procurement, distribution networks, and consumer access systems (Steemers, 1998: 98). Particularly relevant to this point are models focusing on implications of a potential increase in the number of digital television broadcast channels on programme competition and choice (Owen and Wildman, 1992; Wildman, 2001).

Wildman argues that an increase in the number of channels is expected to increase programme diversity, but at the cost of providing lower budget programmes that likely will have less appeal to viewers. Following Wildman, diversity gains through digital multiplication of channels should be largest if individual broadcasters are allowed to control several digital channels each. As Wildman put it: “As the number of competing channels increases, the audience for each channel will decline. and, as a result of the increased competition and options available to viewers, additions in production budgets will generate smaller increases in audience and advertising revenues. With declining returns to production budget expenditures, broadcasters will produce or commission less expensive programs” (Wildman, 2001: 6). And, secondly, digitisation leads to narrowcasting whereby public television may be left with services aimed at commercially less attractive target groups (Steemers, 1998: 103). This may in turn further undermine the public support which forms the basis of public service broadcasting’s principle, the licence fee. These theoretical propositions hold a message for the Austria situation although they yet need to be founded on empirical evidence.

**Pressures on Universality**

Digitisation is changing market conditions: this is the conclusion of an advisory group to Kommunikationsordnung 2000 of the Bertelsmann foundation. There, renowned experts proved that transition of a conventional infrastructure is a long-term, technically complicated and financially costly endeavour with high competitive risks (Glotz et al., 1998: 98). Thus, it is assumed that digitisation of television will lead to an intensification of competition in the programme, advertising and viewer markets and trigger off new distribution struggles among providers (Reiter, 1997; 1998). This means that digitisation also gains not least in economic significance through the fact that it does away with the scarcity of channels. It also intensifies the scarcity of programmes, whereby attractive content is made still more expensive. This development leads inevitably to the splitting up of viewers among the various offers. This in turn weakens the use of quota optimization by means of full-service programmes reaching wide numbers and tends to push down advertising revenues. As a result, the budgetary pressure on public service television increases. For digital pay-TV providers also have a demand for mass-attractive programme content and programme rights in order to compete equally with public service providers or those financed by advertising or subscription. As a consequence, the following double-bind situation arises for public service TV in the digital era: either it faces up to the digital competition or it relinquishes digital markets and declines altogether (Siune and Hultén, 1998; Steemers 1998; Tracey 1998). The former strategy is inevitable if the legal commitment is to be fulfilled, but expensive in view of both the widening gap between fixed programme-charges and legally limited advertising revenues and ever increasing cost of rights. The latter strategy is politically undesirable because thereby the future of public service television would be called into question.

In Austria, late political support and regulatory actions have shown that the ORF should be assured of universality through access to new transmission
technology in the context of its public remit. However, it may be criticized that the ORF has already redefined programme universality in analogue broadcasting in subtle ways. Culture programming has been thinned out such that, for example, mass-attractive popular entertainment like the daily TV-show “Willkommen Österreich” is attributed culture programming status. Further, programme policies towards market-oriented quota-optimization have evidently lowered journalistic quality standards and gradually delegitimised programme innovation in critical arts, culture and informational programming, leading to a drain in creative talents. And the share of sport programming on ORF1 is evidently getting bigger to the debit of other core public interest broadcasting. Having said this, one has to remain sceptical as to whether ORF digital culture programming will do any better.

The End of Market Failure?

Along with normative prescriptions for the protection of programme universality, aspects of (neo-classical) economic theory provide information on the reasons why free-to-air, unencrypted broadcasting is a failed market and thus needs public regulation. Since it fails to create appropriate incentives towards cost-efficient allocation of resources, political intervention is needed to safeguard features of broadcasting which are beneficial for the public and increase consumer welfare too (Collins, 1998).

Media economists largely agree that universally accessible TV leads to concentration since cost savings achieved by a certain volume of programme output (economies of scale), between different outputs within one company active in more than one market or across more steps of production (economies of scope), or between networks of different suppliers and suppliers and customers (economies of networking) lead to a distortion of fair broadcasting competition with overall welfare losses for the viewing public (Müller, 1998). In this case, public regulation is warranted as dominant operators may seek to eliminate competition to achieve monopolist mark-ups, build up market entry barriers, leverage market power in one market to obtain power in another, establish programming control and keep down quality and product innovation. Since simultaneously the pressure of competition for cost-saving increases, it seems sensible to attain greatest possible advantages from multiple utilisation of journalistic content in as many channels as possible. This naturally culminates in the feeding of such information into digital networks.

Secondly, free-to-air television shows characteristics of public goods which everybody can consume and from which nobody can be excluded. This means it is impossible or too costly for broadcasters to exclude those who do not pay for them. Viewers will thus free-ride on the demands of others. Further, they consume but see no incentive to pay for particularly beneficial goods, so-called ‘merit goods’, which broadcasting programmes may confer, such as objective information, high culture, and education. Non-rivalry and non-exclusivity of consuming TV programmes thus render competitive controls powerless in unencrypted broadcasting.

However, digitisation is now considerably altering the economics of information. And standard theoretical positions of broadcasting markets as failed ones needing state intervention are increasingly losing significance. This is the case because digitisation is becoming increasingly economically attractive by solving the economic problem of non-excludability and non-rivalry in consumption and by generally changing the conditions of broadcasting by reinstating the market as regulatory principle. Consequently, increased competition promises to overcome market imperfections in many ways. Encoding signals regulate viewer access to programmes, thus excluding those who are not willing or able to pay for them. Cash-collection problems which have, up until now, strongly impeded the economic viability of pay-TV, are soluble via the set-top-box which is, anyhow, necessary for the reception of digitised offers (Kiefer, 2001). This economic viability is now converting free-to-air programmes into subscription broadcasts. The market then serves as the best resource allocation system with prices serving as suitable instruments for viewers to best signal their consumer preferences.

The D-Box Dilemma

The situation in Austria brings further evidence to the fore that digital television is far from being fully accepted by viewers. Although it has been possible to receive ORF via satellite and the d-box since 31 August 2000, its launch has been accompanied by a series of shortcomings. Shortcomings also to be noticed by Premiere. The bone of contention is the set-top-box technology of the d-box.

The ORF declared its decision for Kirch’s ‘d-box’ in spring 2000. However, by choosing the d-box, the ORF inherited all of Premiere’s problems with the box (Selhofer et al., 2000). In gist, the d-box offers no common interface with competitive encryption systems – it only understands Premiere’s Betacrypt system – and thus contradicts the European TV signal directive. Whoever wants to watch ORF Digital needs to buy the d-box for decoding the programmes. No other technically more advanced and cheaper decoders would do.

Why did the ORF build on the d-box? The ORF argued that this was only sensible as there were already more than 50,000 Austrian households using it to receive Kirch’s digital package Premiere World by then. Premiere viewers thus only needed the ORF smart-card for accessing ORF Digital via the box. ORF critics claim that this policy might have been ‘doing a favour’ for the ORF’s most
important content provider, the Kirch-group (Infosat, 2000). The ‘d-box dilemma’ also made manifest the crucial impediment for further market development of digital television in Austria: the uncertainty of technical specifications deters potential viewers from paying for new boxes if they do not know what programmes they will receive or not. And, secondly, uncertain retail price developments of decoders makes them uneasy about switching to digital reception mode (VKI, 2000). Together with the essential lack of content surplus-value for the viewer through delivery of ‘more-of-the-same’ programming and the abundance of analogue free-TV via cable and satellite, viewer take-up of digital television seems stuck in the starting blocks.

**Conclusion**

The future of television broadcasting will be digital and this means noise and loss-free transmission of pictures, higher capacity of broadcasting channels and a substantially larger programme palette with additional television services. But even if the attraction of digitisation is as strong as widely promised, does it really mean better television?

This article started from the assumption that the process of transformation would make questions about the role and legitimacy of public service television in Austria more prominent than ever before. Austria offers a shining example for looking into changes induced by digitisation because its television market is currently in a state of flux. This is because private analogue television is finally in the pipeline with public service broadcasting and cable-TV currently switching over to digital distribution. Since the technical development of digitisation steps up competition in the programming, advertising and viewer markets, the continued existence of public service broadcasting in Austria is at risk. Already facing strong competition from private cross-border analogue television, digital services promise increased competition for the ORF, will take away advertising volume and accelerate the cost spiral for rights. The ORF will have to face these challenges as the regulator has assigned it the role of a chief enabler of digital television in Austria. And, according to the seminal ARD white paper on roles of PSBs in the digital era, public service television will have to bind a user-friendly bouquet with attractive content to ally full-service programmes with specialist channels and new media offers. Accordingly, the aim would be deepening of content and not mere multiplication (Reiter, 1998). So far, ORF offers converge towards private commercial television, with its digital offers showing little innovation with respect to traditional programming. It remains to be seen how far the ORF is able to split itself both ways, by being both distinctive and attractive to its target audiences, and thus to ensure its position into the next millennium.

Media economics theory will have to react to changes induced by digitisation too. Although digitisation helps commodifying TV, programmes still carry the cultural form of public goods. The need for state intervention to safeguard spill-over benefits for society should thus remain relevant. This is to be considered by the Digitale Plattform Austria, the working group to study and consult the transition to digital television in Austria. Underlining this, programme universality is a core principle for public provision of TV broadcasts becoming ever more critical to shape and regulate in the digital future.

Although the digital television market is still very small and only slowly emerging, the market players are jostling for position on the basis of the classical competition parameters product, price, and promotion. Technology comes as another critical success factor. The incumbent ORF is the driver in the market segment for digital satellite television. 100.000 viewers have already switched to ORF Digital (ORF, 2002b). The ORF is also ambitious to play a major role regarding digital terrestrial television. Additionally, the ORF enjoys many traditional advantages in terms of content, corporate ego, rights, brand awareness and customer affiliation. The regulator should be aware of these advantages and, in turn, help newcomers play a vital part in digital TV.

The ORF and Premiere use the d-box as set-top-box standard which increases software interoperability between them but, as repeatedly criticised, concentrates the end-user market in unfavourable terms for the viewer. On top of the persistent confusion regarding an affordable and enduringly stable set-top-box, viewer access to ORF Digital is as yet restricted to registered Austrian TV-households paying for an extra fee to decode the services. This is comes definitely close to public-service pay-TV. Premiere goes strong in live-transmitting premium sports content, offering a series of digital add-on services and no nasty advertising breaks. Another asset is pay-TV experience and time-shifted delivery of programmes. UPC has a large analogue user-base to soon drive-up the number of digital subscribers. State-of-the-art technology is ready for more interactivity with the TV-set. However, neither the d-box nor the UPC-box is as yet upgraded to the new MHP-standard. MHP would guarantee that independent of the type of digital receiver and the service consumed, every viewer would be able to use a broad range of different applications unrestrictedly. These decoders are yet not available and, even if so, much too expensive.12

Audience acceptance of digital television programmes offered by the ORF will also depend on a tangible added content value as compared with private provision. Only this would increase the ORF’s chance of market penetration in a fragmented digital TV audience environment. Above all, consumers should derive advantages from new technology and content. Email and interactive ap-
Applications should supplement TV and help compensate for the loss in social integration that is said be aggravated by digitisation (digital divide). In any case, it is reasonable to be sceptical about interactivity because transmission capacities necessary and the required return channel-capabilities in DVB-S and DVB-T are currently lacking. But only real interactivity will stimulate the multiple use of innovative content, reinforce brand loyalty and make possible the transfer to interactive TV as medium of the future. It only remains to be hoped that the legislator, with the aid of the working group Digitale Plattform Austria will produce a coherent and evaluable digitisation concept that will take up these challenges in competent ways.

End notes

1 The Prognos-Institute views the economic viability of private TV in Austria with great scepticism. Stagnating duration of television use and a limited advertising market are seen as its main causes (Trappel, 2001b). Moreover, run-up costs of Euro 58 million are reckoned with until 2005 (Schlieselberger, 2002).

2 It therefore seems appropriate to speak of the fourth structural reform of Austrian broadcasting after 1966, 1974 and 1984 (See, Murschetz, 1996).

3 In some areas, regulation regarding permitted advertising and sponsoring activities are framed more restrictively than hitherto. Possibilities of interstitials are limited and product placement outwith cinema films, TV films and TV series is prohibited. In the future, cross-promotion of ORF radio programmes and television is forbidden. Intended limitations are said to be necessary in order to offer private TV providers sufficient possibilities of finance.

4 Tricounsult researched the market potential of digital television in Austria on behalf of the ORF. 1000 people aged 14plus were interviewed face-to-face throughout the country between 2 to 21 March 2001. The ORF withdrew publishing the results.

5 In 1993, the Austrian Government was subject to the ruling of the European Court of Human Rights in Strasbourg which regarded the country’s ban on terrestrial transmitted private broadcasting as a breach of Article 10 of the Human Rights Convention.

6 Despite the overall economic downswing in 2001, the ORF could show a slightly positive overall balance and compensate for the losses in advertising and other revenues (i.e. programme sales, rental income, interest and sponsoring revenues) with higher subscription revenues and savings in staff. As stated in the ORF business report 2001, cash-flow was Euro 2 million, revenues accounted for by Euro 894 million, expenditures for by Euro 892 million (ORF, 2002a).

7 Infosat regrets that public service TV like that of the ORF is only transmitted in encrypted form and is therefore only freely available for subscribed Austrians. The fact that the ORF does not wish or is unable to afford expensive Europe-wide transmission and licence rights would also contradict the European idea of TV without frontiers (See, Infosat, 1/2002: 9).

8 TW 1 is partly owned by the ORF (50%) and the private Sitour group (50%). At the end of 2000, the ORF removed ORF2 from the digital bouquet of ZDFvision for cost reasons.

9 Telekabel-mother UPC is itself controlled by the Liberty Media conglomerate of John Malone.

10 The Austrian writer Franz Schuh recently spoke of a ‘pluralisation of incompatibilities’ which public service television in Austria faces. According to Schuh, the ORF is, on the one hand, bound to objectivity, and, on the other hand, “it belongs to the state, that means, in plain language, the officials of the government of the day dominate it”. Furthermore, in addition to political pressure, a “superficially depoliticised market” had evolved which the ORF would have to meet. Schuh’s worst-case scenario: “The worst thing that could happen to the national public service medium, this soundbox of the voices of our homeland, the real or supposed mirror of the country, would be the absolute merger, the complete fusion of commercial channel and government broadcaster” (Schuh, 2001: 13).

11 Quota optimization refers to the fact that numeric benchmarks (quotas) measuring reach and market share of programmes become ever more important to indicate the performance of public service broadcasters. Performance itself is coming under pressure from commercially oriented television to reach the greatest possible number viewers (sold to advertisers) as well as to achieve evaluable parameters for viewer acceptance, fulfilment of the public remit and economic efficiency which go beyond quantitative quotas of market success (Breitnach and Hawlik, 2001).

12 This article does not reflect the bankruptcy of the Kirch-group and its effects on technology policy.

References


