Global Forum on Competition

COMPETITION ISSUES IN TELEVISION AND BROADCASTING

Contribution from Indonesia

-- Session II --

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-- Indonesia--

Introduction

1. Indonesian television broadcasting industry divided into two clusters, namely public and private broadcasting; and free and paid subscription. From the two clusters, combination of private broadcaster with paid subscription is the most competitively dynamic. However, their market share is remained low (under five percent) from overall market for broadcasting industry. Therefore, the focus for this written contribution is limited to private broadcaster with free to air subscription.

2. Private broadcaster with free to air subscription (hereafter refer to “LPS”) in Indonesia consists of ten private companies with nationwide coverage frequency and content. Most of them are affiliated under certain group/holding. Below is LPSs together with their groups.

   a. RCTI, MNC TV, and Global TV are under MNC Group;
   b. TRANS TV and TRANS 7 own by PARA Group;
   c. AN TV and TV ONE by BAKRIE Group;
   d. SCTV owns by EMTEK Group;
   e. IVM with Salim Group; and
   f. METRO TV owns by Media Group.

3. In addition to national LPSs, in some regions the existence of Local LPSs is also acknowledged and competes head to head with national LPSs. Their coverage is limited to regional spectrum, and the content mostly focuses on local with little national content.
1. **The Consumer**

4. The consumer for LPS is mostly public. In addition, there are other two groups of consumer for LPS. First is the advertiser who willing to promote their product to the public. The advertiser will make a contract with preferable advertising company (agent) to provide portfolio of mass communication, including TV commercials. In Indonesia, advertising company will act on behalf of advertiser to actively negotiate with LPSs on their placement. Negotiations are made by considering aimed target or segment that suit the launched product.

5. The sales value of TV commercial is affected by the content of broadcasting. In this matter, LPS will connect with the second group of consumer, namely content producer and or production house. Generally, LPS will use internal production network or purchase content from external producer. But, most of LPS does have their own subsidiary in content provider to assist them in producing their own. These are the proportion of number of content producer and portion by external producer by LPS in Indonesia.

![Chart 1. Market Share based on Group](image)

**Chart 1. Market Share based on Group**

**Year 2004 – June 2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>No of Content Producers</th>
<th>In House Production Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>29</td>
<td>51%</td>
</tr>
<tr>
<td>2006</td>
<td>62</td>
<td>41%</td>
</tr>
</tbody>
</table>

6. The chart shows the increase of number of external content producer and decrease percentage of the use of internal production house. These certainly indicate that the competition and business in production house is growing.

2. **The Competition Issues**

7. Competition between LPSs occurs in (internal) content production or procurement of content from external production house. Competition also occurs in obtaining exclusive right for live events, such sport, concert, and other. Content with highest interest from subscribers will be places in the prime time (between 5pm to 9 pm), where most of subscriber spending their time watching TV. Consequently, sales price for commercial during the prime time is much higher than those not.

8. Market structure for national LPSs (along with their affiliation) based on income from commercials can be shown as follows.
9. The HHI value for national LPSs is as follow.

Chart 3. HHI Value based on Income from Commercials
Year 2007 – June 2011

10. In general, market structure for LPS is concentrated, which take form of two factors, namely (i) limitation of spectrum for broadcast frequency with national coverage; and (ii) affiliation between LPSs under certain group. Apart from the market concentration, there is no anti-competitive behaviors can be identified. This is because the consumer can enjoy broadcasting freely by free-to-air TV, and commercial’s agency can mix their commercial’s portfolio and not depending on the TV commercial, but also other tools including sign board, billboard, newspaper, and joint sponsorship in many live events. Policy on convergence for information technology (IT) and communication where consumer or commercial’s agency can take benefit of the convergences of telecommunication, broadcasting, and IT network to obtain and or disseminate necessary information.
11. With the contribution of above factors, it is difficult for LPSs or group of LPSs to conduct an abuse on their market power. Meanwhile, the potency for horizontal anti-competitive behavior may occur on allocation of content or price fixing of commercial’s slot (allocation). However to date, there is no strong indication to conclude such behavior.

12. The potency for anti-competitive behavior also may occur on vertical integration that is between internal and external production house. The LPSs have own consideration to make sure the quality and consistency of content toward consumer’s preference. To secure such, LPSs tend to establish their own production house or enter into binding commitment (agreement) on exclusive content with external production houses. Direct ownership or exclusive content agreement between LPS and integrated content provider can be a tool to limit opportunity or discriminate independent content provider.

13. In addition to vertical integration, KPPU also experienced issue on cross-ownership between media network. Media Group with Metro TV, Bakrie Group with TV One and AN TV, MNC Group with RCTI, TPI, and Global TV; are those of business groups which have and operate other form of media (network) such radio station and newspaper. Moreover, PARA Group (who owns TRANS TV and TRANS 7) even has a leading web portal for information in Indonesia. Indonesian broadcasting regulation is explicitly banned or limited cross-ownership in media network. Their concern is mostly related to control of vital information to the public. In term of competition, the main concern is less option to consumer and advertiser on information provider. Indonesian Competition Commission (KPPU) is continuously monitor number of content provider in Indonesia to anticipate the existence of anti competitive behavior, specifically those related to vertical integration and cross ownership.

3. The Future Challenge

14. Spectrum (frequency) limitation is one of the potencies for entry barrier in TV broadcasting industry. With current ten national LPSs, potentially there is no national frequency available to new entrant. This is expected can be solved by moving to digital system, where one spectrum (frequency) can be divided to six or eight frequency for TV broadcast, which much better quality from analog system. Now, Indonesia is moving toward the digital system which will demand institutional changes in broadcasting industry.

**Chart 4. Transformation from Analog to Digital System**
15. In an analog system, LPS concurrently are organizing several functions, namely broadcast, broadcast rights holders, infrastructure providers such as transmitters and relay stations and towers provider. In digital system, breaking of function is exist, where broadcasters only be a broadcaster while a new institution calls Multiplexing (MUX) should be established. MUX will be the provider for infrastructure, facilities and simultaneously a frequency owner. By regulation, MUX should be an institution that can issue broadcasting license, and will be determined through a bidding process organized by the government/regulator. In the said institutional settings, the LPS will hire the channels broadcasting frequency to MUX as the holder of the rights of broadcasting frequencies.

16. With the existence of MUX, several competition issues should be anticipated. First, the competition model should be competition for the market to each MUX operators. Meanwhile for LPS, market structure will change to oligopoly for each broadcasting zone, because one frequency can be distributed to six or eight LPSs where represent number of spectrum on each zone. Second, the MUX operator will have dominant position in each broadcasting zone. LPS then may pay excessive usage fee or force to accept terms which reduce incentive to broadcasters. Third, abuse of dominant position also can occur in condition where LPS is an affiliation of MUX. Potential discriminatory practices are those relevant to this situation.

17. To anticipate the issue of unfair competition based on the relevant regulations, control of frequency by certain LPS must not allowed. By considering these conditions, LPS and its affiliates can not be mastered Multiplex in the same zone. In addition, Multiplex organizers must provide the open frequency to non-affiliated LPS in a transparent and non-discriminatory way. Until now, the bidding process for some zones has been completed. KPPU will continue to monitor the development of competition associated with the implementation of the digital broadcasting system.

4. The Case Example (Merger)

18. KPPU received a merger notification that involved two enterprises, EMTEK Group and Prima Vista. The activity was involving the acquisition of Prima Vista’s share in Indosiar TV (one of Indonesian LPSs). Meanwhile, EMTEK Group is the righteous owner of SCTV (one of Indonesian LPSs). During the assessment, KPPU put market structure as first order priority. It was defined that the relevant market for this merger was a free to air TV broadcast. The value of commercial generate income is treated as main indicator for market share. Based on the analysis, it was calculated that the estimated concentration (by HHI) in this industry for year 2010 is as follow.

<table>
<thead>
<tr>
<th>INDIVIDUAL HHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Merger</td>
</tr>
<tr>
<td>1,110.98</td>
</tr>
</tbody>
</table>

19. It was commonly known that LPS often affiliated with certain group of business. Considering this circumstances, assessment also conducted by include the cross ownership. The result is as follow.

<table>
<thead>
<tr>
<th>GROUP HHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before Merger</td>
</tr>
<tr>
<td>2,355.26</td>
</tr>
</tbody>
</table>
20. The HHI after the merger in term of cross-ownership did preceding the threshold (more than 1,800). The change is also relatively high (i.e. 216) and preceding the threshold of 150. Using this indicator, KPPU valued the need of overall assessment on the merger. The criteria will involve many factors including efficiency, entry barrier, and anti competitive practices.

21. From the entry barrier, the main factor to consider is the licensing and limitation of broadcasting frequency. Broadcasting licensing process is relatively transparent and publicly available, while the limitation of frequency is still a major obstacle. After the invited experts to comment on the industry, especially in technical areas of broadcasting, KPPU saw opportunities for new entrant when digital broadcasting system is introduced. With the adoption of digital system, each frequency can be divided into multiple channels that can be use by existing LPS or new entrants to enter and take part in the broadcast industry. Therefore, it was foreseen that the entry barriers were most likely in-significant in the assessment.

22. The second aspect is efficiency. Indonesia TV as a LPS for the last four years had shown continuous downturn in both financial and operational.

23. Some excellent programs that had gained good ratings were terminated or move to other LPS. While as LPS, Indosiar have a competitive advantage in terms of hardware and broadcasting technologies, including the number towers and relay stations throughout Indonesia. This is foretold as the main motive for the acquisition. It is expected sharing broadcasting production facilities can be implemented to increase efficiency for both companies.

24. The third aspect was the potential anti competitive practice after the acquisition of Indosiar TV by EMTEK Group. Both LPSs have different segments of audiences. SCTV mostly correlated to movie, while Indosiar TV focused on mini series. The potency for competition infringement is insignificant, due to the internal production house; other national or local LPSs are available to bring outer perspective for the broadcaster. In addition, both LPSs have their commitment to develop cooperation with external production house as the business allocation to external production house is widely available.
25. The potential barrier for horizontal competition is yet to be significant. It was highlighted by the advertising companies that competition in having commercial slot (time allocation) is severe. Advertising companies can relocate commercials to find suitable slot in line with feature demanded the client. The selling price of commercials is varying between LPSs and between peak and non-peak hour. Other than TV commercial, the advertising company also has options to relocate commercial expenditures to other media, including online media.

26. Therefore based on the aforementioned considerations, KPPU approved the merger and let Indosiar TV indirectly acquired by SCTV.

5. Conclusion

27. Indonesian broadcasting industry tends to be oligopolistic and control by several groups of company. There is no group of company meet the market share threshold as a monopoly. Currently, no new entrant is allowed due to limitation of frequency (spectrum). Competition occurs in both at vertical and horizontal level, namely between broadcasters in obtaining contents and between advertisers (or advertising company) in obtaining TV slot for commercials, specifically for a prime time. Cross ownership or price fixing are those of behaviors that likely arise in the industry. Therefore, KPPU is continuously monitor the industry to anticipate the said anti-competitive behavior.

28. Broadcasting industry in Indonesia is in the middle of transition from analog to digital broadcasting system. It is expected that digital system will increase number of enterprises and thus competition in the market. The transition is not easy, as it will demand some changes in the institutional setting.