HOW TO CONSOLIDATE THE AUDIOVISUAL MEDIA SERVICES MARKET IN NORTH MACEDONIA?

POLICY BRIEF

MEDIA
DEVELOPMENT
CENTER

Kingdom of the Netherlands

SKOPJE
JULY 2020

POLICY BRIEF

HOW TO CONSOLIDATE THE AUDIOVISUAL MEDIA SERVICES MARKET IN NORTH MACEDONIA?

MEDIA DEVELOPMENT CENTER

JULY 2020

TABLE OF CONTENTS

MEDIA DEVELOPMENT CENTER

INTRODUCTION

The process of media reforms, based on the recommendations of the group of experts from the European Union compiled in the "Priebe Report"[1] and the "EU Urgent Reform Priorities"[2] proceeds slowly and, so far, rather haphazardly. On the other hand, it is evident that the levels of abuses of economic and political power to win over or compel the media to "cooperate" depend largely on the will of those who hold political power in the country to refrain from or abuse the existing situation of law, in any, sustainability in the media market, and especially the market of audiovisual media services.

The audiovisual media market in North Macedonia has been oversaturated from the very start of its development in the first half of the 1990s.There were few attempts for regulatory consolidation and reduction of number of players to a level that can be sustained, while ensuring higher quality of programmes and contents offered to the audience.From the very beginning, the policy of choice was that it should be left to the self-regulatory "hand of the market" and that those who won't be able to keep up with the competition will quickly shut down operations and disappear from the market.

This document, prepared with financial support from the MATRA Programme of the Ministry of Foreign Affairs of the Kingdom of the Netherlands, is an attempt by the Media Development Centre to analyse the existing situation and to gather in one place as many information on the market and its functioning, and to offer possible solutions that would lead to the elimination of the problem.

Kingdom of the Netherlands

This document was prepared with support from the MATRA Programme of the Foreign Minister of the Kingdom of the Netherlands. The contents of this publication is sole responsibility of the Media Development Centre and shall not be understood, in any way or fashion, to reflect the view and positions of the Foreign Ministry of the Kingdom of the Netherlands.

1 There were two Priebe's Reports, the first in June 2015, and the second in September 2017
2 "EU Urgent Reform Priorities"

OVERVIEW OF THE EXISTING SITUATION

At the moment of writing of this document, there are 47 entities that hold permits to broadcast television programmes on different levels in the market – 11 national, 11 regional and 25 local television stations, and 69 radio stations – 4 national, 17 regional (all of them in Skopje) and 48 local radio stations[3]. In total, there are 116 entities that hold permits to broadcast programmes. The high levels of oversaturation of the impoverished market continuously produces negative effects.

The first negative effect is the fact that almost no one active in the market, with exception of several national TV broadcasters that enjoy the support, through internal cross-subsidies from other businesses of their owners, can afford the economic independence as foundation for their resistance to political pressures.Even that national TV broadcasters that are part of larger corporate systems can't avoid such pressures, leading to the dominant impression that is noted in all relevant rankings of freedom of press and freedom of media[4], that the owners view their media outlets primarily as support for their other business ventures and as an instrument to attack their competition.The oversaturation doesn't really contribute to greater media pluralism and the owners are forced to take the side of the government (whoever holds the power at any given time) because the success or failure of their other businesses depends also on the editorial policies applied by their respective television stations.It should suffice to remember how the previous government of VMRO-DPMNE abused public funds and access to public tenders to put the majority of the broadcasting media under firm control.We should also remember the speed with which the leading broadcasters reorient their editorial policies with every change of government.

Another consequence, as we shall see in the section dedicated to the advertising market, is that nobody is truly able to invest in production of higher quality contents.A huge share of the programming schedule is filled with the cheapest form of production, daytime TV talk-programmes and political talk-shows. In addition, the all-present call-in programmes in which members of the public phone in and comment on current affairs intensify the impression that those are, in fact, radio formats with added minimal visual component.

At the same time, no TV station earns enough from sales of advertising time to be able to invest in procurement of TV rights for popular quality sports (even for the rather

3 According to the updated registries of TV and radio broadcasters kept by the Agency for Audio and Audiovisual Media Services
4 See, for example, in Media Sustainability Index, published by American organization IREX

cheap TV rights for the national leagues in team sports), or the latest quality drama series of European or American production.To illustrate the latter, we should note that among the American-produced TV series currently aired by the national DVB-T broadcasters in North Macedonia, the newest was produced in 2017, and we also have running series produced in the early 1990s.Even the Turkish telenovelas, extremely popular with Macedonian TV audiences, are generally too expensive for the broadcasters to secure the rights for the premiere season and they, too, are usually aired in Macedonia at least one season later.

We should also bear in mind the fact that Macedonian TV broadcasters have to compete for the attention of the audience with wealthier foreign TV stations – primarily broadcasters from the region, but also from other European countries, as well as the growing competition of the online streaming and SVOD platforms (especially popular with the younger audiences. In fact, a number of surveys conducted in North Macedonia and abroad show that younger people are abandoning linear television[5] and migrate on mass to the digital sources of audiovisual contents. Also, its interest in traditional television as source of news and information[6] is constantly falling. The impression is that the audience for linear television in the country is shrinking, consisting primarily of people 60 years of age and above.The needs of that remaining audience, as evident from the financial results of the national TV broadcasters - the ratings, to which we have limited access, also point to the same conclusion, are perfectly well satisfied by the two leading national DVB-T broadcasters.

On the other hand, in view of the fact that public opinion surveys consistently show that television remains a leading source of news for the Macedonian audiences, we may as well decide that the best solution would be for citizens to rely on Macedonian TV broadcasters only for their news, and that they should satisfy the needs for entertainment or educational contents from foreign television or on the internet or, which is of particular importance, in the programmes of the public broadcasting/media service.Nevertheless, the assumption is that the audiences in North Macedonia, in addition to the public broadcasting service, want to access commercial contents in Macedonian language (and the languages of other ethnic communities that live in the country) that will inform, entertain and educate them, not necessarily on one programming service. Each of those approaches dictates special solutions and policies in regulation of audiovisual media services industry.

5 See the article published by "Hollywood Reporter" in October 2018, based on the data available from the Nielsen Total Audience Report and polls conducted by the Pew Research Centre.

6 See in the report "Critical Thinking and Media Literacy among the Youth in the Republic of North Macedonia", prepared by the Metamorphosis Foundation and EuroThink (2020), under the auspices of the "CriThink" project.

HISTORY OF POLICIES OF DISTRIBUTION OF BROADCASTING AND TRANSMISSION RESOURCES

Policies of distribution of available transmission resources – radio and TV frequencies – for broadcasting of programmes in North Macedonia passed through several stages.

STAGE ONE
ABSENCE OF REGULATION

The first stage, which seems to be the most important because it produced negative effects that last to this day, was the stage that started with the declaration of independent of the country and was concluded in 1997.The first stage was characterized by absence of any regulation and clear determination of the government that the broadcasting sector was to be regulated by the "invisible hand of the market". The journalist, publisher and writer Dzvezdan Georgievski often tells the story of his conversation with then minister of urban planning, construction, transport and ecology Antoni Pešev.Georgievski, as one of the founders of Radio Kanal 4, the first privately owned radio station in the country, asked Pešev if the state planned to "bring some order" to the area of broadcasting and when it intended to do that. Pešev responded that the state had no intention whatsoever to meddle in broadcasting and that "it will be regulated by the market".

Due to a number of circumstances – the newly gained freedoms, including the freedom of expression and information, the enthusiasm to take part in the democratic development of the country, the transition to market economy and the newly adopted "entrepreneurial spirit", the development of the political scene in Macedonia (which won't be less important than the other factors, to the contrary!), and the tradition created in the previous highly-decentralized system in which municipal public radio stations was a normal thing – in the first half of the last decade of the 20th century we was a real boom of new broadcasting media.It wasn't a rare occurrence to see municipalities with population of 15-20 thousand (4-5 thousand households), with no local economy worth mentioning, to have two competing television stations.

The first wave was created of hyper-local media that continued, to great extent, on the tradition of local public radio stations.The first hyper-local radio and TV stations used rudimentary, often amateur-grade equipment, the studios were adapted living rooms and garages that were far from meeting even the minimum standards for contemporary television production, and their treatment of copyright rules were very "liberal"[7]. That approach helped bypass the problem of the high costs of entry into the market, a characteristic of all media markets, and especially of television.

It took some time until larger corporate entities, or well off businesspeople with diversified portfolios, entered the television market, introducing a much more ambitious approach, investments in professional studio equipment and networks for national transmission of signals.

7 We should point out the case of a local television, long defunct, sanctioned by the Broadcasting Council in the late 1990s for airing, on the weekend before the Academy Awards Ceremony, all the films nominated in the main awards categories.

At the end of the first, unregulated stage of development of the broadcasting scene, there were more than 180 radio and television stations operating in a market of about 550,000 households.

STAGE TWO
THE FIRST LAW ON THE BROADCASTING ACTIVITY

While it may be clear, with the benefit of hindsight, that a law on broadcasting should have been one of the first pieces of legislation to be adopted after the adoption of the Constitution, back in 1991, the first Law on the Broadcasting Activity was adopted in April 1997, marking the start of the second stage of development of the broadcasting market and the policies for management of the segment of the electromagnetic spectrum dedicated to radio and television broadcasting.

The Law on the Broadcasting Activity introduced the principle of concessions for performance of broadcasting activity, which was adequate approach for the frequencies as a limited public resource.One weakness of the Law was the treatment reserved for the newly established regulatory body, the Broadcasting Council. Namely, the regulatory authority's competences were set up as if it was an advisory body to the Government than a truly independent regulatory, which was especially evident in the process of allocation of broadcasting concessions, which were allocated by the Government, acting on a prior proposal by the Council.

The biggest problem of that Law, from the viewpoint of functioning of the market and broadcasting industry, was that it cemented the already oversaturated scene instead of using the new instrument of broadcasting concessions to "create order" in the system.Although Article 13 of the 1997 Law clearly states that "the Concession of paragraph 4 of this article shall be issued to a commercial broadcasting company that will offer better terms and conditions for performance of broadcasting activity for the citizens of the respective area", implying that a single concession shall be granted for an allotment zone, on local or national level, it wasn't implemented in practice and we had, in fact, several concession holders operating in the same allotment area. The adoption of the Law offered an opportunity (similar opportunity was missed with the adoption of the 2005 and 2013 laws), on basis of proper analysis of capacities of Macedonian economy, the size of the market measured as number of households, the needs of the advertisers and the audience, to make a plan that will define, among other things, how many broadcasters and of what type/format can function in a defined geographic area. The outcome, however, was to "legalize" the overcrowded scene with a decision to grant concessions to all interested parties.Thus the number of more than 180 broadcasters functioning at the time.

STAGE THREE
THE 2005 LAW ON THE BROADCASTING ACTIVITY AND TRANSITION FROM BROADCASTING TO AUDIOVISUAL MEDIA SERVICES

The third stage of development started with the adoption of the 2005 Law on the Broadcasting Activity. That law, anticipating the process of digitalization and the opening of new transmission resources in the part of the electromagnetic spectre dedicated to radio and television broadcasting, replaced the system of broadcasting concessions with broadcasting permits. When adopting a decision to announce a public call for allocation of broadcasting permits and the number of permits that will be allocated, the Law prescribed, in addition to diversity and quality of programmes and pluralism, and the needs of the audience, that the Council should take into consideration the economic capacities of the relevant markets and the technical resources and capacities of the applicants. Of the last two, the criterion regarding economic potential of the market was traditionally disregarded, as we shall illustrate later in this document.The impression is that the regulatory body, in all of its iterations, always made sure that all transmission capacities are fully used, both in the days of analogue broadcasting and after the digital switchover.

During the validity of the 2005 Law on the Broadcasting Activity, we saw the introduction of permits to broadcast programmes on regional level.It should be noted that until before 2013, regional television broadcasters functioned only in Skopje, in line with the administrative division of the country into planning and development regions, which treats the capital city as a region in its own right.It was only in 2013, after the digital switchover, when about 20 local TV broadcasters decided to use the opportunity and move to regional broadcasting.

The second important change was introduced with the decision to issue special permits for satellite broadcasting, in spite of the fact that the 2005 Law was clear that the permits are platform-neutral.Two decisions adopted in 2008 introduced 16 new broadcasters holding permits to broadcast programmes on national level over the satellite[8]. Although some of them functioned for a short period of time and several never really started transmissions, the remaining satellite broadcasters further “thickened” the already overcrowded TV market in the country.

The digital switchover introduced another change.To help the local television broadcasters, which were constantly facing financial difficulties to the effect that few could afford the costs of digitalisation, DVB-C licenses for transmission on local level were introduced. Such a limitation of an allotment zone for a purely commercial venture like cable television was, to put it mildly, absurd, since there is no reason why a cable television that basically packages a programming service (regardless of whether it produces the programmes in-house or buys them from independent producers) and is headquartered in Štip couldn’t, if there is interest for that type of content, offer the programming services to cable operators in Ohrid or Tetovo.

8 This contrary to the Strategy for Development of the Broadcasting Market 2007-2012 which clearly identifies the need for consolidation of the market and lists concrete steps for regulatory action.

The Law on Audio and Audiovisual Media Services, adopted on December 25, 2013, makes a distinction between transmission over a limited public resource (DVB-T multiplexes) and transmissions that don't use a limited public resource (DVB-Cable and DVB-Satellite). The permits that don't use limited public resource, extended automatically for another 9-year term with a decision of January 5, 2015, were divided into satellite and cable permits. It meant that we abandoned the principle of platform-neutral broadcasting permits introduced by the 2005 Law on the Broadcasting Activity.

The regulatory policies on distribution of available transmission resources and corresponding broadcasting licenses have several important characteristics.

The first characteristic is that the regulatory has been making concerted effort to allocate all available capacities in the spectrum (before and after the digital switchover[9]. That policy was justified with the need for more diverse contents, pluralism and information for local/regional and other communities (whatever the definition of the word community). It has been a long-standing assumption that some role in that approach has the fact that the regulatory body is largely financed from the collected license compensations. On the other hand, the regulatory has no control over the amount of the compensation, which is defined in the law with a special formula.

The examples of majority of European countries that have liberalized their broadcasting market gradually, taking great care when and how, and under what conditions they would allow entry of new players in the market are not applicable in North Macedonia, due to the absence of regulation in the first, crucial years of independence and transition into political pluralism.In the countries of former Yugoslavia we have two approaches:The first, of a highly regulated and controlled liberalisation in Croatia and Slovenia, and the second, similar to ours, in the other republics. Even a superficial look shows that the former has proven to be a far more successful and sustainable.

The second characteristic is the lack of distinction between the public-service and commercial broadcasting.Namely, the legislation (although the Law on Audio and Audiovisual Media Services somewhat leans away from that position) has viewed all TV broadcasters as smaller public broadcasting services with the same obligations and remit to provide information, entertainment and education to the public. Broadcasters have similar views – due to the fact that politics and news "sell", they all insist, even if formatted as primarily entertainment/general purpose TV broadcasters, the main accent remains on news and information and political and other talk-shows (as we already pointed out, mostly radio formats with added visual component).

The third characteristic, emerging after the digital switchover, was the distinction within commercial television between different types of licenses - terrestrial (DVB-T), cable (DVB-C) and satellite (DVB-S), with different criteria for application and allocation. The new trends move towards equal treatment of all types of permits, and increasingly the main distinction is between "free to air" and subscription programming services.

9 We should note that the approach seems to be changing over the past several years, knowing that the last several initiatives for allocation of new DVB-T broadcasting permits, in 2015, 2016 and 2018 did not result in active calls for allocation of permits.

HISTORY OF POLICIES OF DISTRIBUTION OF BROADCASTING AND TRANSMISSION RESOURCES

Countries of Europe approach that issue in several different ways. Most countries insist that all entities that want to engage in broadcasting of programmes, regardless of the platform, have to secure a broadcasting license. A number of countries even issue broadcasting permits for programming services intended for other countries. On the other hand, Sweden has a system in which permits are necessary and are granted only for terrestrial DVB-T broadcasting, while packaging of programming contents and transmission over cable networks or satellites require no permit[10]. It is considered a constitutional right and instrumentalisation of the constitutionally guaranteed freedom of expression and information and every citizens can freely start transmitting programmes over cable or IPTV platforms, or over the satellite. Certain types of content and programming services require a mandatory registration with the regulatory body.

In Netherlands, all entities in the market of commercial audiovisual media services need to secure broadcasting permit from the competent regulatory body. The commercial television broadcasting permits are platform neutral[11] and a legal entity or physical person that received a permit may then choose to enter talks with operators of different platforms (DVB-C, DVB-S, IPTV) to carry its programming services, or to apply for space in the terrestrial digital multiplexes from the electronic communications regulator. The entities that applied for broadcasting permit are required to note in their application the number of households they intend to cover (they don't need to be limited to a compact territory) and whether they plan to broadcast "free to air" or subscription channel[12]. The Dutch practice, established with the 2008 Media Law, timely anticipated the growing importance of new digital platforms, as well as the growth of online SVOD and streaming platforms.

Another mainstay of the policy for distribution of available transmission resources and broadcasting permits was the "one broadcaster – one programming service" approach. That policy doesn't correspond to the current trends of consolidation of broadcasting markets, through mergers or takeovers of broadcasting companies, the possibility for one broadcaster to broadcast several, mostly specialized programming services - sports, film channels, cartoon channels intended for children, or channels ever further restricted by genre, such as channels that air only science fiction and fantasy films and series, crime series, etc.In addition, the future of news and current affairs programmes on commercial television is increasingly seen on the specialized news channels (cable news such as CNN, SkyNews, MSNBC, Euronews, Fox News, etc.) that couldn't exist

10 See the website of the Swedish Press and Broadcasting Authority – Myndigheten för press, radio och TV

11 MDC contacted the Dutch regulatory body by e-mail, with inquiry about regulatory policies for allocation of TV broadcasting permits. They directed us to the information brochure for commercial broadcasting services, prepared by the regulator Commissariaat voor de Media

12 The regulation in the Netherlands uses the terms „general broadcasting purpose" and „special broadcasting purpose", according to the definitions of the Dutch Media Law

without the support from large media conglomerates with many specialized channels that can attract the advertisers and earn the funds that can then finance the costly newsrooms.

Finally, throughout the history of commercial broadcasting in North Macedonia, it was viewed primarily as provider of news and information programmes and forum for discussion, above all, of daily political agenda and current affairs. On global level, commercial television is viewed predominantly as provider of quality entertainment. Specialized cable TV stations that offer news and information only (CNN, Fox News, Euronews, MSNBC, etc.), in addition to public service broadcasters, are the only broadcasters mentioned in the context of ongoing discussions about future of journalism and news. As already noted, an in view of the fact that here we have the dominant position that "news sell", we could decide that we need domestic commercial television primarily for news and information, and that the needs for other types of programming contents – entertainment, education, culture – shall be satisfied by foreign television available through cable, IPTV and DTH providers, or increasingly by the online sources.

ADVERTISING MARKET

The economic unsustainability of the media market in North Macedonia is the source of all problems and challenges faced by the media scene – the high levels of exposure and vulnerability to political and economic pressures reflects negatively on the ability of media to maintain an independent editorial policies in the performance of their task to inform the public; and the inability to procure or produce quality entertainment or cultural contents (telenovelas and series of Turkish production are an exception, to some extent) that would attract bigger audiences and, as a result, more advertisers.

What is the size of the market and, importantly, what is the number of TV broadcasters that the available advertising market can sustain, knowing that existing TV broadcasters report that at least 90% of their income (usually well above that number) is generated through sales of advertising time?What kind of programming contents can be financed by the available advertising revenue?We should take into consideration the assumption that when responding to these questions, we have to compare with foreign markets and television broadcasters, in view of the fact that television stations from North Macedonia are forced to compete for the attention of the audience not only among themselves, but also with foreign broadcasters available in the catalogues of the operators of public electronic communication networks (cable, IPTV, DTH satellite services[13]).

One of the main problems we face is the lack of systematized data on the size and distribution of advertising budgets. That should be, in principle, the main task of a body working within the advertising or broadcasting industry. What we have available is the information on the financial results of providers of audiovisual media services that are collected and published by the Agency for Audio and Audiovisual Media Services in its annual analysis of the audiovisual media services market (or the broadcasting market before 2013)[14]. The analyses, especially those published before 2013, calculated the total generated income from sales of advertising time with the methodology that included counting the total amount of time of aired ads and multiplying it by the prices listed in the official price-lists of the broadcasters[15]. That methodology yielded unrealistically high figures on the total worth of the advertising market, especially compared with the total net earnings from advertising reported by the TV companies in their annual balance sheets. For instance, the gross TV advertising market in 2008, according to the Analysis of the market, was worth €389 million, while the TV stations reported net earnings of €27 million.The figures for 2009 were €472 million and €25.6 million, respectively.In 2010, the gross TV advertising market amounted to €579 million, while the net earnings of the TV broadcasters (A1 TV's results excluded) amounted to about €18 million.The ratios of gross and net sales of advertising time are similar in all years for which market analyses are available.

13 Abbreviated from Direct-to-Home
14 The analyses of the market are available on AVMS website
15 The regulator purchased the data and the calculations for its market analyses from the official ratings company AGB Nielsen Macedonia.

The difference is due to the practice of awarding huge discounts to the advertisers, result of the prolonged price war that the leading national TV broadcasters waged during the better part of the 2000s.

Ultimately, the AVMS abandoned that methodology, and it was followed by other institutions that prepare reports on media sustainability and related issues[16]. The Agency now bases its analyses of the market of audiovisual media services on the information on earnings and expenditures that the actors in TV and radio markets mandatorily submit to the regulatory body, as well as the data listed in their annual balance sheets.

On the other hand, the global report Media Sustainability Index, relies on the assessments of insiders of the advertising industry, namely the Macedonian Association of Marketing Agencies.According to the Association, the advertising spending has been relatively stable for a number of years, at between €30 and €35 million for all advertising platforms – television, radio, print, internet, OOH[17]).

The assessments of the share of TV and radio advertising as percentage of total advertising spending vary, depending on who you asked, from 55 to 65 percent of the total advertising spending.While we are at it, it follows a dropping trend as we record a constant growth of digital advertising (on the Internet and on mobile platforms) and, which is the case in our country, the Out-of-Home advertising.It means that the estimated worth of the TV advertising market may range from a low of about €15 million, to the high estimate of €21-22 million.We should note that the information listed in the annual balance sheets of TV broadcasters generally correspond to the high-end estimates on the total spending on TV advertising.

Compared to the countries of former Yugoslavia and Albania, North Macedonia is in a group of countries with Albania (app.€37 million), Bosnia and Herzegovina (app.€22 million) and Montenegro (€11 million) – there are no available information on Kosovo's advertising market – with relatively small advertising markets.Serbia (estimated €180-200 million), Croatia (app.€340 million) and Slovenia (€125 million) are much larger markets, both in absolute numbers and as per capita spending.

The question is, what these numbers mean for the television industry and why do we think that the current situation is unsustainable and we need to consolidate the market and radically reduce the number of active players in the market?

It is almost impossible here to find out the average costs of an hour of broadcasting programmes with calculated costs of production, procurement, utilities, labour and other costs.Or to find out how much does it cost, on monthly or annual level, a decent newsroom and production of news for a broadcaster?The

16 The Media Development Centre was the local partner of IREX for the preparation of the Media Sustainability Index report for North Macedonia.
17 Abbreviated from Out-of-Home, includes billboards, city lights, public transportation, building faces, etc.

owners and managers of the broadcasters have not done the math or don't want to release such information, which we need to make an assessment of the total cost of operating a TV or radio broadcaster per year.It would be even better if we had solid estimates on the average costs of production of different types and genres of programming contents.What is the cost, for example, of "daytime television" compared to the costs of production of news, political and entertainment talk-shows, quality drama series, etc.?

For the purposes of this document, we shall consider the production of variety show programmes in our region, whether currently popular talent shows, talk-show, reality TV, etc.The reason is that such variety show programmes are easily accessible to Macedonian TV audiences though their cable, IPTV and DTH providers, and Macedonian broadcasters have to compete with those shows for the attention of the audience.Croatian daily "Jutarnji list", in an article dedicated to the moving of production of show-programmes from Croatia to Serbia[18], published in 2017, estimates that one episode of TV show or relatively high quality costs €80-100 thousand to produce in Croatia. According to the article, the costs are 20-30 percent lower in Serbia, which was the reason why Croatian broadcasters were intensively moving their production to Serbia at that time. It means, if the cheaper option in Serbia is set at about €60,000 per hour, one second of the programme costs about €16 to produce.If we made the calculation based on the assumption that one episode of such a variety show lasts two hours, the costs per second are calculated at about €8 per second.

It is difficult to come to the date for the developed markets of audiovisual media services. The data available on the Internet is usually older, and new data, when available, usually refers to production of serial drama.For example, the average price per hour of quality drama series in the U.S. is estimated at about US$2.5 million.The costs, naturally, vary greatly, to the effect that, according to available data, an episode of the final season of the mega-popular series "Game of Thrones" cost about US$15 million, at an average of about US$7.5 million per episode for all four eight seasons of the series.Production costs are lower in Europe.The Danish-made political drama "Borgen" (it was aired here by one national DVB-T broadcaster several years ago) was produced at a cost of about €1 million per episode.Similar costs per episode are reported for the other products of the extremely high-quality "Nordic noir" production in Scandinavia.

In our region, on the other hand, costs of production of quality drama are much lower. According to Dragan Bjelogrlic, producer of the

18 "SELIDBA NA ISTOK: Kako je jeftina srpska radna snaga ispraznila TV studije u Hrvatskoj: Najam prostora i tehnike još je jeftiniji, a razlog je bizaran", Jutarnji list, 28.03.2017

popular series "Shadows over the Balkans", one episode costs about €80,000 to shoot[19]. Serbian media also published information about the historical drama "Nemanjici" that had a total budget of €3.2 million for 13 episodes, at a cost of about €246,000 per episode.Calculated the costs per second, it amounts to about €22 per second for "Shadows over the Balkans" and €68 per second for "Nemanjici".

As far as the so-called "daytime TV" is concerned – usually involving talk programmes and discussions on variety of topics – considered to be the cheapest TV contents available, we found information on the internet about the costs of production for the British DVB-T broadcaster ITV, for 1999. According to Gillian Doyle[20], one hour of "daytime TV" cost ITV about £18,000 (adjusted for inflation, it translates to £27,000 in today's money, or about €29.4 thousand). Again, it amounts to about €8 per second of "daytime TV". Information about costs of production of daytime TV in the region was not available.

It is almost impossible to make comparison with the capacities of Macedonian television industry, because data on costs of production of different types of programmes are rarely available and are treated as top-secret information.We still managed to get an estimate from the producers of one of the most successful entertainment talk-shows in the country that one 45 minute episode (with advertising slots the whole programme is an hour long) costs between €2000 and €2500 to make, with additional comment that the earnings barely cover the costs of production.They add that the common practice for all similar programmes, as well as other genres, produced by independent producers, is for broadcasters to not buy the programmes completely, but contracts are made for certain percentage of the sales of advertising time within the show's slot.One second of the talk-show costs between 55 and 69 Eurocents.

Thanks to the request by the Programming Council of MRT to be presented with the agreements for procurement of programmes from independent production, we now have some information about the costs of some of the programmes that will be aired by the public broadcasting service.The quiz-show "Quick Thinking" (31 episodes lasting from 20 to 30 minutes each) will cost MRT €3,450 per episode.For 48 episodes of the "Master Chef" serial (it is an international franchise originally created by BBC, with localized versions in more than 60 countries all over the world), MRT shall pay €1,770 per episode, and for six 50-minute episodes of the co-production project "European Stories", MRT shall contribute€20,0003, or about €3,300 per episode (the total costs of the project was

19 Bjelogrlic gave that figure in an interview in Zoran Kesic's "24 Minutes" show
20 Doyle, Gillian, "Understanding Media Economics", SAGE Publications, 2002.

not released to the Programming Council).On average, the costs of production of said programmes is set at about €1 per second, which should be the minimal average for our market. That is also, by virtue of the fact that quality of programming is one of the fundamental principles of functioning for public broadcasting services, the cost of what we should consider high-quality production.

That situation produces two important consequences. First, our TV broadcasters can't afford to purchase or produce high-quality programmes that will allow them to compete with the far richer competition from abroad, available to Macedonian audiences over various platforms (cable, IPTV, DTH, online OTT services, etc.). That is especially the case with quality international sports competitions and the latest European and American high-end drama series.The series produced in Western Europe or the U.S. that are currently aired by our TV broadcasters are, on average, 5 years old[21]. Even the popular Turkish telenovelas, which are assumed to be much cheaper than European or American production[22], rarely arrive in front of Macedonian audiences in their premiere season, and are usually purchased at least one season behind.

Also, the prime-time, which is the slot for the most popular series and rare quiz and game shows, is largely dedicated to programmes that are, in their essence, borrowed from radio.Long talk-shows in which the visual component is secondary or is outright meaningless, are better suited to radio. That is especially true for the all-present call-in show, with static background and one host, with citizens calling in to give their opinions and comments on current affairs. The important thing is, essentially, that that is the cheapest possible production that one can imagine.It is difficult to even try and estimate the costs of an hour of such programming, especially without available data and information, but it shouldn't exceed €500 per hour.

Another calculation yields an even bleaker picture of capacities for domestic production of quality television.If we took the highest estimate of the national TV advertising market of about €22 million[23], it turns out that the 47 TV stations that broadcast programmes in Macedonia can spend cumulatively a total of about €0.7 per second of programming. It means that if we want, for sake of pluralism, at least two commercial TV broadcasters, they can't project their expenses at more than 35 Eurocents per second of programming.We should also

21 The newest series that is not of Turkish or Latin American production was the German-Czech coproduction "Das Boot" (Submarine), which was first aired in 2018. Telma TV is unique among national DBV-T broadcasters by the fact that it doesn't air Turskish series, but its drama catalogue mostly offers seasons of American and European series produced before 2017, even if the respective drama series are still in production. The latest of globally popular series it aired was Taboo (UK) which was originally broadcast in 2017 in the UK.

22 Turkish series, while considered cheaper than the comparable Western European production, are expensive enough to prevent Macedonian broadcasters to purchase them in their premiere season. They, too, are aired one or two seasons after their premiere.

23 Different sources estimate that the Covid19 pandemic has caused advertising budgets to shrink between 50 and 80 percent, which means that the total TV advertising spending for 2020 may not exceed €6 million.

know that the five national DVB-T broadcasters control about four fifths of the total advertising spending, which means that they can spend between them about €0.56 per second, and the remain 42 national, regional and local television stations cannot exceed more than 14 Eurocents per second of programmes between them, whether they produce or purchase the programmes. Along the same lines, for a television station to be able to invest at least €1 per second of broadcast programmes (or €3600 per hour), it should secure an annual budget of €31.5 million.Compare that figure with the high estimate of about €22 million for the total TV advertising market, and things get much clearer.We believe that the calculations above provide an answer to the question how many TV broadcasters can be sustained by the available advertising market.That answer is two, at best three TV stations, if we count in the need to provide for certain level of pluralism in broadcasting[24]. Also, it would mean that we accept a lower level of quality or access only to older programmes for our audiences.

24 Like all European countries, North Macedonia also has a dual system, with a public service broadcaster as a guarantor of, among other things, media pluralism, thanks to the standards of internal pluralism that apply to all public service broadcasters.

OWNERSHIP AND SUSTAINABILITY

Macedonian broadcasting and later audiovisual media services legislation is traditionally strict and restrictive in the area of ownership of media and media concentration.Recognizing the power of broadcast media, and especially television, to influence and shape public opinion, it the legislation traditionally cares to ensure the existence of as many active players in the market, giving primacy to numerical instead of internal pluralism.

The fear of emergence of powerful media owners with open political ambitions resulted in a ban for leaders of political parties and members of their families (and other related persons), elected or appointed public and state officials from owning media outlets.That ban proved easy to bypass, through formal transfer of ownership to proxies, without adequate instruments to prevent the real owners pulling the strings and *de facto* running the media while hidden in the background.

The same fear of emergence of parallel centres of power based on ownership of "media empires" resulted in relatively strict and restrictive rules on horizontal and vertical media concentration and cross-ownership.The state, while we are at it, always has the possibility, if it wants to do that, to destroy such independent centres of power based on media ownership, something that VMRO-DPMNE ably demonstrated when it ruthlessly dealt with Velija Ramkovski and his media group, once Ramkovski demonstrated open political ambitions and stopped supporting the government[25].

Cross-ownership, i.e., the possibility of print media publishers to own fully, or a certain share of ownership in broadcast media, and vice versa, has been completely prohibited. That is yet another aspect in which the development Macedonian broadcasting sector differs from the traditional European approach, in which the first commercial television stations were opened with participation of established publishers, who saw television advertising as a new source of income.Similarly, commercial broadcasters cannot engage in simultaneous broadcasting of radio and television programmes, which is a possibility reserved only for the public broadcasting service.

The horizontal concentration is restricted by allotment zone and the type of license held by the broadcaster.National TV broadcasters can

25 We have to note that, as majority of the "transition tycoons", the business practices of large number of media owners are often suspect, especially in terms of taxation law and regulations. Ramkovski, for instance, was formally prosecuted and sentenced for tax fraud, and not because his media supported this or that political parties or because of his political ambitions.

own up to 50 percent share in another national broadcaster, majority share or decision-making rights in a regional broadcaster, and two local TV broadcasters.Regional TV broadcasters may own a majority share of ownership in another regional and two local broadcasters, provided that allotment zones don't share a common boundary.Local broadcasters may own majority share in two more local broadcasters in non-neighbouring allotment zones.The same article of the Law on Audio and Audiovisual Media Services restricts vertical concentration, prohibiting film producers, distributors, operators of electronic communication networks from owning shares of ownership in a broadcaster, and vice versa.The article also prohibits broadcasters from owning shares in propaganda and advertising companies.

The goal is, of course, to prevent the creation of independent centres of economic and political power and oligarchic influence on public opinion.On the other hand, such restrictive measures prevent the consolidation of the market.Combined with the low sustainability of the overcrowded and oversaturated market, it allows the holders of political power manifested in the Government, to easily "win over" the most influential media for its side.The most serious abuses of that type were in evidence during the reign of the previous government of VMRO-DPMNE.

Of course, we have the issue of media pluralism, that is, the representation of all diverse interests and groups in society in the audiovisual media services, as well as provision of contents that meet their needs.

The restrictions on ownership with the aim to prevent unwanted media concentration, combined with the limited advertising market, contribute significantly to the law sustainability of the broadcasting sector.They prevent the consolidation of the market, either through mergers or takeovers, as well as through preventing the possibility for a single entity/broadcaster to air more than one programming service.The elimination of some restrictions will hopefully lead to consolidation and smaller number of active broadcasters, but necessarily to drop in diversity of offer of audiovisual contents.Past experience teaches us that large number of broadcasters doesn't mean that pluralism will flourish.Quite to the contrary.In any case, we do have, in the dual broadcasting system, the public broadcasting service which has the task, among other things, to provide for pluralism in audiovisual media services.

PUBLIC DISCUSSION

It has been a long-standing practice of MDC to present its policy documents, before the final version is decided, and discuss them with the representatives of the expert community and the stakeholders, to gather their opinions and views on the issues at hand. On July 27, 2020, we organized a public discussion which, because of the Covic19 pandemic, was held on the online platform ZOOM.About 15 representatives of CSOs that work in media, the regulatory body and broadcasting industry participated in the discussion.

The participants agree that the problem of unsustainable market is the main reason for the difficult situation faced by the broadcast media and their newsrooms.On the other hand, they raised the issue of media pluralism and whether it could be upheld and maintained if we are left to just one or two commercial television broadcasters.They also noted that, in spite of evident need to start resolving the burning systemic issues, the previous government was not prepared to implement the necessary reforms.

Several participants raised the question of the regulatory body and the fact that it never enjoyed sufficient independent and authority to deal alone with the issue of the overcrowded market and reduction of number of broadcasters to ensure greater levels of sustainability.On the other hand, it was noted the AVMS chose to not award new DVB-T licenses in the last three initiatives to open a public call for allocation of new license. According to the participants in the discussion, the need for greater independence and autonomy of the regulatory remains.Moreover, it is not required by the new Audiovisual Media Services Directive, which we shall have to integrate in the national legislation even before we official join the European Union.

The participants demand from the regulatory authority to take care to collect and organize more and detailed economic indicators on the situation on the market and the expenses incurred by the broadcasters for production and procurement of programming contents.On the other hand, several participants noted that the comparison of costs of production and procurement of programmes between different national markets perhaps needs to add information on the respective GDPs of compared countries, and other macro-economic indicators.

The participants pointed out that, in addition to the information on advertising spending and available advertising budgets and their distribution between different advertising platforms, we need an analysis of the national economy to determine the needs for advertising spending among the companies, how many of them are marketing-dependent and need to invest in some form of advertising.

Also, several participants noted the new trends in consumption of audiovisual media services (mainly television), including the transition of audiences, especially the youth, towards the new digital platforms, as well as the fact that Macedonian linear television has been largely reduced to older and rapidly aging audiences.

PROPOSED SOLUTIONS

The audiovisual media services market needs serious consolidation and reduced number of active entities.That has been emphasized by all stakeholders – representatives of the media industry and representatives of the creative industry.IREX's Media Sustainability Index, in the section on North Macedonia, continuously offers the remarks of the panel that informs the report that the scene is overcrowded and oversaturated, especially in the segment of broadcasting/audiovisual media services.

One area that is not open to direct intervention is the advertising market, as nobody can dictate to advertisers (potential or existing) when, where and how to spend their investments in advertising.Although broadcasting, television in particular, still commands a dominant share of the advertising spending (estimates range from 55 to 65 percent of the total advertising spending in the country), its share is constantly shrinking.It may sound paradoxically, but the reduction of number of active broadcasters may result in growth of advertising market and prices of advertising time on television, following the rule of supply and demand which states that the drop of total available advertising time (supply) even at constant demand, should increase the prices, as advertisers are forced to compete for increasingly limited resource.

It is evident that the wait for the market to regulate itself and those who can't keep up competition to disappear doesn't work.On the other hand, it is difficult to expect that the future government, just as all previous governments, will give up the market-based approach (the prevalent trend in the EU helps them there) because the existing situation works in their favour.The main problem with that approach is that it takes long time, and will take even more time, to the effect that we can sooner see total collapse of the commercial audiovisual media services than the market regulating itself to sustainability.

It is a matter of choice, after all.If we choose to let the market to regulate how many media outlets will survive, we still believe that some instruments of the existing media policies that have influence on sustainability of the market can and should change to assist the market in achieving the optimal solution.

1. We need to change the policy "one broadcaster – one programming service" and to allow a single broadcaster to apply for and be granted several permits for broadcasts of specialized programming services.That change is in line with the current trends of mergers and takeovers that create huge media groups that can better respond to the challenge of the new digital platforms, and can afford investments in quality contents (whether sports rights, high-end drama series, etc.) that will satisfy the needs of the audience.As we are primarily interested in the news and information programmes, such large systems and media corporations can afford to finance specialized news channels in a situation of shrinking advertising revenue due to the growth of digital advertising (Internet and mobile).Finally, such large systems (often multinational corporations), due to improved financial results, exercise much greater independence and resistance to external pressures from centres of political and economic power.

PROPOSED SOLUTIONS

2. We need to reform the system of allocation of commercial broadcasting permits. In that context, and knowing that holding a DVB-T permit (broadcasting over terrestrial digital multiplexes) is not the privilege it used to be and that the access to television is now dominated by public electronic communication networks (DVB-C, IPTV and to an extend the DTH DVB-S providers), we need to reconsider the existing distinction between terrestrial and cable/satellite/IPTV television. We have the example of the Netherlands, with its platform-neutral broadcasting permits and broadcasters, once they secured a permit, can freely choose to apply to the electronic communications regulator for space on the digital multiplexes or negotiate with cable and IPTV operators for transmission of their programming services and the terms and conditions of the transmission.Also, as in most EU member-states, in North Macedonia the DVB-T multiplexes reserved for commercial television are managed by a private entity, which means that moving to platform-neutral permits is possible and, we believe, necessary.

3. We need to eliminate the approach of geographically restricted allotment zones and redefine our "local markets". It is clear that the local and regional allotment zones (with the local areas are defined as the territory of one municipality) lack sufficient market – measured as number of households or by its economic power – to sustain television broadcasters.At the same time, we have illogically drawn "broadcasting regions" which correspond to the administrative division into planning and development regions, with at least one case of municipal seats between which there is optical visibility to be placed in two different regions[26]. When defining the "local" and "regional" markets[27] we should be led by the principles that those are natural population agglomerations with sufficient number of households and developed local economy to sustain a broadcasting media outlet.Local communities (defined by the territory of a municipality) will be better served by radio broadcasters, knowing that radio is much cheaper to operate than television, both in terms of maintenance and production and procurement of programmes. The existing territorially restricted permits are especially redundant for DVB-C and IPTV platforms (broadcasting over public electronic communications network) and go against the very logic of a commercial venture that consists of packaging of contents to offer to the audience or to the operators of public electronic communication networks.

26 Consider the example of Stip and Sveti Nikole. From highest parts of Stip you can see Sveti Nikole, and vice versa.
27 In most countries, even in the richest media markets like the U.S., "local" TV markets are rarely limited to a single urban area and usually cover larger conurbations or whole regions and counties.

4. We ought to fully revise the existing policies and legislation that regulate the restrictions of media ownership and prevention of media concentration.It is equally true for horizontal and for vertical concentration of ownership.(It should be noted that the Strategy for Development of Broadcasting 2007-2012 did prescribe such an action, but that strategy was never properly adopted and implemented). The rules on prevention of vertical concentration should especially consider, with utmost care, the possibility for operators of public electronic communication networks (cable operators and telecommunication companies) to establish their own programming services[28]. While we are aware of the dangers, we should not that it has been a long accepted practice all over the world.On the other hand, we need to strengthen the rules and procedures on dominant/monopolistic position in the market, which would prove to be the crucial instrument to prevent abuses of the great economic power that especially telecommunications companies have.Also, knowing that most of the leading TV stations are parts of larger corporations that use the media outlets as support for their other business ventures (and to access the lucrative public tenders, through favourable reporting of the government), we should consider mandatory sale of their broadcasting operations, to set them up as independent companies for which broadcasting or publishing is the core business activity. In the discussion, there were mentions of the ideas that national TV broadcasters should be legally obligated to be set up as shareholder companies, with upper limit of 25-30% of the ownership that may be owned by one shareholder.Another idea was to legally prohibit the corporations that have TV broadcasters within their structure from participating in public tender competitions.

5. The regulatory pressure to ensure greater transparency of ownership needs to be strengthened with introduction of instruments designed to prevent "hidden" ownership through proxies.

6. If we choose that it is for the market forces to decide who shall survive in the broadcasting market, we ought to eliminate all possibility for public subsidies in the audiovisual media industry (all public funds available for audiovisual media services should go to the public broadcasting service, anyway), as well as, to the extent possible, all forms of internal cross-subsidies from the other businesses of the media owners.We should, therefore, ensure that only sales of advertising time,

28 We have to admit that such a solution brings a lot of risk to the table. The participants in the public discussion were unanimously against it, believing that the large telecommunication companies will abuse that possibility to gain huge market power, knowing that existing TV broadcasters simple can't compete

sponsorship deals for individual programmes and sales of programmes would be sources of revenue for the commercial broadcasters.Here, we should repeat the idea presented in the public discussion that owners of broadcasting and media companies in general can't participate in public tender competitions.

7. We should review the manner of calculation and the amounts compensation charged as compensation for the broadcasting permits (collected annually).The amount of the compensation should be defined by the regulatory body instead of the legally prescribed formula that we have today.Such a solution brings certain risks to the table, knowing that the regulatory authority is partially financed from the annual compensations for broadcasting permits (although its share in the total budget of AVMS constantly drops, with the funds from the State Budget increasing its share of the total AVMS funding), so AVMS may decide to increase the amount of the compensation in order to secure more money for itself.On the other hand, the prevalent impression with the majority of media experts is that the compensation for the broadcasting permits is set too low.Yet again, even such low compensation presents an almost unsurmountable obstacle for many broadcasters at the time of its collection by the regulatory body.That is especially true of the local and regional broadcasters which face huge problems to secure the money to pay the annual compensation.The collection of compensation fees for broadcasting permits, should the regulatory abandon its current lenient approach to the late payers, can prove to be a useful tool for the effort to reduce the number of active broadcasters.

Those were the preferred actions that we see as necessary to assist the market forces to consolidate the audiovisual media services industry in the country.

The other option we have is to adopt a regulatory approach and to use legislative and regulatory instruments and measures to reduce the number of active players in the market.While rare – due to the controlled and careful process of liberalization of commercial television markets in the countries of Western Europe it was not really necessary – that approach has been used occasionally.The last such case was in Greece, with the decision of the Greek regulatory body to cut the number of national DVB-t licenses from eight to five.Similarly, we can try and cut the number of DVB-T permits, especially if we decide that the existing distinction between terrestrial multiplexes and other transmission platforms (cable, IPTV, DTH satellite) should remain.Admittedly, that approach is less likely to take place because it would require political will and determination – the legislative branch will face accusations of stifling freedom of expression and information – which is why we wasted several opportunities to do exactly that in the past.Those opportunities most clearly presented themselves at the time of adoption of the three relevant laws (in 1997, 2005 and 2013). On the other hand, it should be noted that such a regulatory approach will quickly take us to the desired goal – a more sustainable number of players in the market which will be capable of providing higher quality programming contents to the audiences.

This option shall require, to be able to justify the clear separation of terrestrial broadcasting from cable, satellite or IPTV, much stricter criteria for allocation of DVB-T permits, especially in terms of obligations for public-service functioning and internal pluralism in the programmes of each individual broadcaster.

Two distinct paths of action are possible:

1. A legislative intervention with amendments to the Law on Audio and Audiovisual Media Services that will prescribe early termination of the existing broadcasting permits, most of which expire on January 4, 2024.It will require the Agency Audio and Audiovisual Media Services to be obligated to prepare, within a reasonable period of time before the expiration of the permits, to conduct necessary analyses of the market capacity and needs of the audience, to determine how many broadcasters can the market sustain, after which it will organize and implement a public call for allocation of new permits, in accordance with the findings of the analyses.

2. Wait for the now valid permits to expire on January 4, 2024, without automatically extending them for a new 9-year term. Of course, the need for the Agency to prepare the necessary analyses mentioned in the previous indent, to determine the optimal number and type of broadcasters that the available advertising market can sustain and implement a public call procedure shall remain.

POLICY BRIEF

HOW TO CONSOLIDATE THE AUDIOVISUAL MEDIA SERVICES MARKET IN NORTH MACEDONIA?

MEDIA DEVELOPMENT CENTER

JULY 2020