

Broadcasting Finance in Transition

A Comparative Handbook

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Regulatory and Financial Issues in Transfrontier Television in Europe

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At the present time, Europe is witnessing a spectacular development in the means of mass communication. Three converging phenomena, the development of new broadcasting technologies (cable, satellite, decoders, video, etc), deregulation and internationalization are playing their part in changing utterly both the traditional ways of organizing television broadcasting and the habits of consumers. Admittedly, the forward-looking optimism displayed in the early 1980s by many of those in charge of broadcasting policy is today no longer appropriate: plans for cable networks in France, West Germany and Great Britain are considerably behind schedule; several direct satellite broadcasting schemes have been abandoned, with great regret; the new European channels are taking a long time to find their level of viability, and some investors are starting to withdraw their stakes. None the less, an irreversible movement has been launched, and by the 1990s, the European audio-visual landscape will have been totally transformed.

In Europe, broadcasting developed essentially within a national framework. For various technical reasons (the fact that there are not many frequencies and that the transmitters have a limited range), economic reasons (a concern to protect domestic electronic industries) and political reasons (the concern of the politicians to keep the communication networks under their control), the organization of broadcasting was conceived as serving the interests of the various countries. A European approach, of the kind practiced by the European Broadcasting Union (EBU) since 1954, was initially the brainchild of the broadcasters themselves, and not of the national governments. The growth of broadcasting in response to national needs was reinforced by the diversity of the languages spoken in Europe, and this was probably the most decisive factor in the breaking up of audio-visual space in Europe.

To think of broadcasting in the context of European interdependence therefore requires us to recognize that the nationalist outlook which has hitherto held sway in most of the states of Europe must be left behind. Broadcasting is already to some extent cross-frontier in the areas near national boundaries where it is possible to receive programs from neighboring countries by ordinary direct transmission. In small countries, such as Belgium, the Netherlands and Switzerland, the development of cable networks, which was essentially fueled by the interest which viewers displayed in programs from neighboring countries, has done a great deal to make broadcasting international. On some networks in French-speaking Belgium it is now possible to receive, in addition to the two RTBF channels, the two BRT channels, RTL, two NOS channels, the three German public-service channels, the three French public-service channels, BBC1, RAI 1, and three channels set up to broadcast throughout Europe, TV5, Sky Channel and Super Channel. But this, the Promised Land of European television, remains very limited: in the major European countries, most viewers can still choose only from programs intended for national consumption.

Obviously, it is satellites which will have the task of abolishing frontiers and increasing what is on offer. Already low-powered telecommunications satellites (EUTELSAT 1 F-1 and INTELSAT-V) make it possible to broadcast fifteen channels throughout Europe (and this does not include the two American-based channels, CNN and Worldnet). The imminent launch of direct broadcasting satellites (TDF-1, TV-SAT, Astra, Olympus and perhaps an Irish satellite) will help to multiply many times the technical possibilities for broadcasting. But the question which this raises here and now—and which the bodies responsible for planning the use of satellites have tended, in their technological optimism, to leave aside—is the financing of, and the provision of programs for, these new channels. It is well known that the possibilities of financing offered by the European market—especially revenue from advertising—are limited, and that there will not be room for everybody. These limitations explain why the issues raised at the present time are so important: while private groups speculate on the advantages which those who get in first may derive, and seek to move faster than their competitors, the public-service channels are attempting to defend their own position, while trying, sometimes hastily, to meet the challenge of satellite broadcasting.

Licence Revenue:

The Problem of Adaptation to Transfrontier Television

The major difficulty facing the public-service organizations in accepting the challenge of satellite broadcasting is the inadequacy of their traditional method of finance—the licence on receivers—to cope with broadcasting on an international scale. Financing by means of the licence, a classic solution which is particularly well-suited to broadcasting in a national context, cannot

easily be adapted to international broadcasting. It is difficult to imagine that, at the present stage of European integration, a standard licence could be imposed on the countries of the Community as a whole and refunded to the various national public-service channels, or put into a common fund which would be responsible for redistributing it.

To set up programming on a Europe-wide basis, the public-service channels therefore have little choice but to draw on their own resources ("diverting" revenues from the national licences in order to finance a channel provided for viewers in neighboring countries); to ask for public subsidies—and this carries risks for their autonomy with regard to the politicians; or else to fight on the same ground as their competitors in the private sector (financing by advertising, sponsorship).

The "diversion" of national revenues for international broadcasting is a luxury which few organizations can afford. For several years now, Antenne 2 has been beamed to Italy, while the programs put out by the BBC are relayed by transmitter from the Belgian coast to the cable networks in the Netherlands. At the present time, only the German ARD (with its Eins-Plus project) and the Italian RAI (with its first channel being broadcast by satellite, at first on a purely technical and national basis, but now available to some cable networks in Belgium, Great Britain and Switzerland) offer their programs to third countries without any trade-off or association.

To facilitate this diversion of national resources, other public-service channels have found it advisable to form an association with related partners: the pooling of potential audiences matches a pooling of finances and programs. Three public-service associations have been proposed, one of which has appeared not to be viable. That is TV5, the French-language channel started in January 1984 by the three French public-service channels (TF1, Antenne 2, FR3), the RTBF (Belgian-French), and the SSR (Swiss-French television), which is financed in part by a contribution from the channels (which are responsible for the costs of program making on a pro-rata basis according to the broadcasting time each receives) and by the French government, which is responsible for hiring the EUTELSAT 1 F-1 channel and installing a board of management. These operating costs rose from 2 million ECU in 1984 to 6 million in 1986 (1 ECU = approximately £0.7 or \$1.20). The basic agreement among the five channels stipulates that there can be no financing from advertising. In March 1985 an agreement was drawn up enabling programs to be financed from sponsorship, but this solution seems to be having only moderate success. The tripartite agreement signed in January 1987 by the governments of France, Canada and Quebec should enable further funding to be secured, with a mixed consortium of Québécois television stations putting programs into a common pool and, perhaps, broadcasting to North America. The French Foreign Ministry is reported to be prepared to help finance programs for this channel. The development of TV5 has thus brought it up against a thorny problem: many of its original programs are likely to be

sponsored either by private enterprise or by a Foreign Ministry. This obviously carries risks for the autonomy of the channel and for its image in the eyes of the international public.

3-SAT is a German-language channel, originally inspired by TV5 but with greater resources. It was launched in 1985 by ZDF (the national public-service German channel), ORF (Austrian) and SRG (German-speaking Swiss television) and receives funds directly from the budgets of all three organizations on a pro-rata basis according to the air time each receives. Its 1985 budget was 21 million ECU. The fact that commercials were excluded from the start annoyed many advertisers, who hoped that it would give them a new channel of communication for reaching specific publics among German speakers in Europe.

In 1982 five public-service television organizations, which were members of the European Broadcasting Union (ARD, the first German network; the U.K. Independent Broadcasting Authority; NOS of Holland; ORF of Austria; and RAI of Italy), tested the feasibility of providing a pan-European television service. Its Eurikon programs, which were broadcast by the OTS-2 experimental satellite to closed-circuit networks, enabled the organizations to assess the difficulties inherent in a channel intended for audiences that are culturally and linguistically distinct. In the same year the European Space Agency agreed to allocate to the EBU peak-hour transmission facilities on the experimental Olympus direct broadcast satellite that was due to be launched in 1988.

The launching of a pan-European channel was a response to the hope expressed in May 1983 by the European Parliament and the European Commission in an *Interim Report on the Realities and Tendencies of European Television*. Four members of the EBU (ARD, NOS, RAI and RTE of Ireland, with the RTP of Portugal soon joining in) created the Pan-European Satellite Broadcasting Consortium, with offices in Geneva, which eventually became known as Europa TV. The consortium was governed by Swiss law but was able to use the premises of NOS at Hilversum as its operational center. The first transmissions of Europa TV took place on October 5, 1985, using the Dutch channel of the lower power satellite EUTELSAT 1 F-1. On November 27, 1986, however, the service had to be discontinued due to financial difficulties.

The failure of Europa TV, which some hoped would be only temporary, was due essentially to inadequate funds to cover the initial years of operation. The Dutch government, which had invested 42 million florins in the project, refused it a bank guarantee of 4.9 million florins in September 1986 in the belief that the project was no longer viable. A few days before transmission was halted, Mr. Ripa di Meana, a EEC Commissioner, had announced that the Commission was making a grant of 1 million ECU to enable the experiment to continue, but this additional money was insufficient. Various private contractors have expressed an interest in restarting the channel, but at the time of writing no agreement had been reached.

In addition to the financial problems, there were many other difficulties: the audience reached by the programs was limited to (mainly Dutch) cable networks and to Portugal, where Europa TV was transmitted on the second public-service channel. But access to other large audiences (the Belgian networks, Paris-Cable, etc.) could not be obtained, and this limited the chances of gaining revenues from advertising. Also important was a failure to resolve the dilemma of choosing between a cultural channel and a popular channel likely to attract advertisers. There does not appear to have been a clearly defined purpose for the channel. As a result it was not sufficiently attractive to viewers.

The failure of Europa TV, the problems of growth experienced by TV5, and also the fact that the BBC abandoned direct broadcasting by satellite after spending £57 million on preliminary studies, illustrate the difficulties of projecting the patterns of national public-service broadcasting onto a multilingual European scale. One may wonder whether the member bodies of the EBU are starting to pay here and now for their inability to agree at the start of the decade on the definition of a common, and a genuinely European, service.

The long-term viability of the TV5 and 3-SAT channels still remains to be proved. They appear destined to remain second-preference networks: for national viewers, they do not have the advantage of showing original programs; and for viewers in neighboring countries, because they offer programs in a foreign language, they will necessarily attract small audiences. The limits of financing through the "diversion" of national revenues and of help from secondary financing (such as subsidies or sponsorship) are soon reached. Raising the licence fee nationally to finance international operations is a delicate matter for governments, especially in countries where many viewers evade payment of the fee. To turn to advertising finance, and hence to engage in direct competition with the private channels that are more geared to that source, is to intensify the race for audiences at the expense of quality. Room for maneuver by public-service broadcasting bodies is therefore very restricted.

The possibility of public-service channels which broadcast throughout Europe producing a significant proportion of original programs is nevertheless likely to be one of the main issues of the years to come. In France, Pierre Desgraupes (former director general of Antenne 2) was asked in 1984-85 to undertake simulation studies to map out a high quality channel for the French direct broadcast satellite, TDF-1. These clearly demonstrated the economies of scale that could be achieved by broadcasting internationally. Figures were given indicating that, as the potential audience develops, in conjunction with the buying of air time by private individuals, the relative cost of home-produced programming falls. It is therefore theoretically possible for an internationally minded public-service channel to increase the share given to home-produced programs, while showing fewer bought-in ones. The

ambitious gamble that would have allowed this equation to be put to the test has not been tried, however, since the initial investment suggested by Desgraupes was judged to be too high. We still have little information on how West Germany's ZDF and ARD plan to use their channels on the TV-SAT direct broadcast satellite. It will be interesting to see whether the greater investment capacity of the German public-service network will bring about German-language channels producing many original programs.

Advertising Revenue Across Frontiers: Tele-Monte Carlo and RTL

The cross-frontier financing of channels through advertising is an old practice. What used to be called in France the "*chaines périphériques*" (Tele-Monte Carlo and RTL of Luxembourg) are interesting precedents, which in some respects anticipated the problems posed by satellite broadcasting.

The example of RTL Television is certainly the most significant. In more than one respect the Compagnie Luxembourgeoise de Télédiffusion can be seen as a pioneer of private television in Europe, and its presence on the European audio-visual scene served as a catalyst for deregulation steps in Belgium, France and the German Federal Republic. The development of RTL Television came about when the advertising resources of French-speaking Belgium, and to a lesser extent of Northeast France, started to drain away into the Grand Duchy of Luxembourg. Although the old Belgian regulations on cable, which were drawn up in 1966 and abolished in January 1987, forbade any advertising from foreign stations to penetrate into Belgium, the network distributors relayed programs from the Luxembourg station (and indeed those from the French public-service channels), enabling it to create at one and the same time an audience and a pool of advertisers, which were mainly small and middle-sized Belgian firms. This illegal situation, which a succession of governments tolerated, was the beginning of a process of "silent deregulation," which turned French-speaking Belgium into a veritable audio-visual laboratory. Hence, Belgium experienced, later than Great Britain, but sooner than Italy and now France and West Germany, the classic development of situations where competition rules: the private channels adopted a strategy of putting out programs with mass appeal (American film series, game shows and family programs), the public-service channels attempted to challenge them on their own ground, the private channel gradually gained strength in its news coverage, and its film series tended to improve. The weakening of RTBF reached such a point that the Belgian defenders of public-service broadcasting used the argument that since advertising revenue was escaping to the Grand Duchy, RTBF should consider the possibility of accepting advertising itself. This process, at the present time, looks set to result in RTL taking on a Belgian character (under the name of TVi), in association with most of the daily newspapers.

Table 1. Potential Advertising Expenditure in Europe in 1985 (U.S. \$Millions)

Country	Conditions of Airtime Supply	Actual TV ¹	Potential TV Expenditure	Difference Expenditure
Austria	Poor	92	194	+ 102
Belgium/Lux.	Poor	45	224	+ 179
Denmark	Zero	0	198	+ 198
Finland	Poor/Fair	90	200	+ 110
France	Poor	575	1,527	+ 952
Greece	Fair/Good	58	(58)	0
Ireland	Fair/Good	40	(40)	0
Italy	Good	1,000	(1,000)	0
Netherlands	Poor	87	387	+ 300
Norway	Zero	0	168	+ 168
Portugal	Fair/Good	31	(31)	0
Spain	Fair/Good	439	(439)	0
Sweden	Zero	0	270	+ 270
Switzerland	Poor	60	288	+ 228
United Kingdom	Fair/Good	1,580	(1,580)	0
West Germany	Poor	496	1,827	1,331
Total		4,593	8,431	3,838

¹Where possible TV statistics exclude production costs, but include agency commission.

Estimates of potential expenditure for countries with zero or poor conditions of air-time supply have been taken as the average of three separate estimates based on TV spends as: (a) percentage of GDP, (b) total per capita, (c) share of display spend. The figures calculated are what countries would spend if they matched the U.K. on each variable.

Source: Advertising Industry and OECD data compiled by JWT offices.

Indirectly, RTL was the cause of the European Community institutions intervening in broadcasting matters: not only do the Coditel and Debaue decrees of the European Court of Justice, the basis of the Green Paper *Télévision sans Frontières*, which the Commission published in April 1984, result from the problems posed by the Luxembourg channel seeping into Belgium, but the first proposals brought before the European Parliament (the Pedini and Hahn proposal and the Schinzel proposal, 1980) also resulted from the debate in Germany on the possibility that a private channel based in Luxembourg might seep into that country. The RTL plan for a Dutch-language advertising channel to broadcast to Flanders and the Netherlands was also a cause of protectionist attitudes and regulations adopted by the Dutch government and by the Executive of the Flemish-Belgian Community. Finally, in France, the wish expressed by RTL to use one of the channels of the TDF-1 satellite, the launch of which was decided on in 1979, is one of the fundamental factors in the chaotic process of deregulation there. Though it was rejected in November 1985 when the concession for the *Cinquième chafne* was granted to the Seydoux-Berlusconi group, the CLT revived its hopes of penetrating the French market after the elections of March 16, 1986,

which brought the Right back to power. In fact, in February 1987, the *Commission de la Communication et des Libertés* allocated the sixth channel (M6) to a partnership headed by the CLT. It is doubtful, however, whether this channel will produce enough advertising income to survive.

The difficulties brought about by the international development of RTL illustrate the issues involved in creating an audio-visual space in Europe, as the European Commission has conceived them. The private channels which wish to become international are those that have most interest in seeing national frontiers disappear: cable and satellite broadcasting should make it possible to increase the size of potential audiences and therefore the appeal to advertisers. But this internationalization is possible only if regulations on advertising and on royalties can be harmonized.

Satellite Channels Funded by Advertising Revenue

Satellite television, which enables a much wider audience to be reached, allows the broadcasting bodies to negotiate profitable contracts with advertisers and advertising agencies; this brings economies of scale and the planning of advertising campaigns on an international basis. To this extent, satellite technology ties in more naturally with the requirements of commercial channels than with those of public-service channels.

The British Sky Channel is the true pioneer so far as international broadcasting by satellite is concerned. The satellite Television Company, which was formed in the autumn of 1981, obtained permission from EUTEL SAT to use a ground station for the experimental satellite OTS-2 to ensure a point-by-point link between Great Britain and Malta. The first programs started on April 26, 1982, but it was obvious that broadcasting to Malta was only a pretext: Finland, Norway and Switzerland subsequently accepted Satellite Television on their cable networks. In June 1983, Satellite Television came under the control of the News International Group, which is owned by the Australian press magnate Rupert Murdoch.

Rupert Murdoch's involvement in European broadcasting was seen as the starting signal for a television war in Europe. He seems to have all the trump cards needed to make the plan for the first world-wide television network succeed: he has a large investment capacity and is therefore likely to survive a long period of rising costs; he is able to ensure the interest of the American multi-nationals in advertising campaigns throughout Europe; and he plans to link the European Sky Channel project with the running of an Australian network (TEN) and the creation of a "fourth network" (Fox Broadcasting), which launched its first programs in the United States in October 1986. A plan to set up Sky Channel in Japan, and the purchase of television stations in Singapore and Hong Kong, should allow broadcasting on an even wider scale.

A problem the Murdoch project faced was that of finding programs to fill

the schedules: Australian production is limited; in the United States producers prefer to address themselves first to the three major networks; and in Great Britain producers refused to sell programs to Sky Channel. But the Murdoch group is gradually evolving an international production and distribution strategy which is likely to enhance its program supply. The initial basis of Sky Channel's output consists of low-cost productions: programs for children (Fun Factory), recordings of rock concerts in the various countries to which it broadcasts (Sky Trax), etc. The hire of these programs to small television channels, such as VideoMusic in Italy, MuchMusic in Canada, Tele-Monte Carlo and TV Galicia in Spain, helps to meet the costs incurred.

The major operation undertaken by the Murdoch group to provide programs for its networks was, however, the purchase in 1985 of Twentieth Century-Fox, which gave it direct access to one of the biggest film libraries in Hollywood. A policy of staff restructuring is now restoring the company's competitiveness both in film production and in material for television. Finally, the creation, in September 1985, of Media International, a company operating from Belgium, in association with the powerful Belgian holding company Groups Bruxelles Lambert, the major shareholder in CLT, should enable programs to be bought jointly and co-production ventures, whose costs can be recouped in the various countries with different languages in which the two groups have a presence: the Anglo-Saxon market for News Corporation, and the French, German and soon, perhaps, the Dutch markets for the Groupe Bruxelles Lambert and the CLT.

Questions still remain to be answered over the possibility of bringing this ambitious project into being: Is a fourth network viable in the United States at a time when advertising expenditure is stagnating? Will Sky Channel manage to reach the break-even point in 1987-88, as intended, when, in the financial year 1985-86 its losses were still \$7.49 million? To what extent will the launch, in January 1987, of the British Superchannel, which may obtain better quality programs, weaken the advertising returns of Sky in the major markets (the Low Countries, the Scandinavian countries and West Germany)? Will Sky Channel be able to broaden its public with the medium-power satellite Astra, which the Société Européenne des Satellites hopes to launch in 1989?

It is difficult to answer these questions. The financial position of News Corporation seems to be excellent, thanks in particular to the profits from its newspaper publishing sector: in the year 1985-86, the group's profits went up by 152 percent in relation to the previous year, reaching £117 million. For the first time in many years, Twentieth Century-Fox made a profit. With seven stations of its own and ninety-nine affiliated stations, Fox Broadcasting seems to have got off to a good start. In the autumn of 1986, News Corporation signed with Gillette its first contract to broadcast advertising in three continents. A few clouds on the horizon indicated, however, that these developments are not proceeding smoothly. In 1986 the Sky Channel management

team had to be restructured, as was Fox Broadcasting in January 1987. In the same month, the Murdoch-Lonrho partnership failed to win from the Independent Broadcasting Authority the licence for the three direct broadcast channels which the latter had been authorized by the British government to franchise. In February 1987 Rupert Murdoch was forced to give up his Australian television network in order to advance his control of the press. It would only require protectionist tendencies to develop in Europe (e.g., the writing in of a European nationality clause for the ownership of satellite channels broadcasting from European countries, regulations limiting the concentration of multi-media conglomerates, etc.) for the development of Sky Channel to be blocked.

Until January 1987 Sky Channel's main competitor in Europe was the music channel Music Box. Though it initially formed a part of Sky Channel's scheduling, Music Box became a separate channel in 1984. At the outset it belonged to TESE, the program department of Thorn-EMI (50%), the record company Virgin (45%), and Yorkshire Television (5%). In January 1986, after Thorn-EMI decided to give up all its investments in satellite programming in favor of cable, Virgin became a 60 percent owner of Music Box, in association with Yorkshire Television (20%) and Granada Television (20%).

The formula for Music Box was largely inspired by American MTV, a channel devoted exclusively to rock and other popular music in blocks (3 × 8 hours of programs per day). Unlike Sky Channel, which adopted the classic strategy of building up a family audience at prime time, Music Box set out to reach on a long-term basis 1 percent of the potential audience but a very precisely targeted one: the 15-23 age-range, which the public-service channels had largely neglected. The hope of providing advertisers with a clearly targeted audience does not seem to have been fulfilled as yet: the young audience does not have much disposable income, does not watch much television, and within the family does not choose what programs are to be watched. Having lost £6 million in the financial year 1985-86, Music Box did not foresee reaching break-even point until 1990. Those running the channel eventually found it preferable to merge its music video programming into a new general purpose channel, Superchannel, which was launched in January 1987. The abandonment of the Music Box project immediately brought into being other plans for a new music channel: News International announced a channel called Skybeat, while Robert Maxwell, in association with British Telecom and MTV, plans to broadcast a music channel from the Astra satellite.

Superchannel started broadcasting on January 30, 1987. This new general-purpose British channel is the property of a consortium made up of fourteen of the fifteen regional companies of ITV, with Thames Television (the week-day London company) having refused to become involved. In February 1987 Superchannel should reach 6.4 million homes, as against 7.7 million for Sky Channel. The schedule is made up of material from ITV, the BBC and from independent producers in Europe and Australia. Only sports programs will be

of American origin. Music Box is intended to cover ten hours of programming. The Superchannel schedules should be more attractive to a European public than those of Sky Channel, but the main problem it faces is to find enough advertisers who are not already committed to the Murdoch channel. The Dutch government, which does not hide its suspicions of Superchannel, one week after the start of transmission, had already threatened to withdraw its authorization of access to the country's cable networks for various given reasons (the fact that royalty problems had not been settled, lack of professionalism, that the channel was not being broadcast in Great Britain itself, etc.). The fact that Thames Television—the largest supplier of programs to ITV and the most successful exporter of British programs—has not become involved in the project has also cast a shadow over it. Thames Television executives believe that the amount of investment needed for Superchannel has been greatly underestimated and that management by committee will prove unworkable.

The British channels that are financed by advertising are not alone in experiencing difficulties, since problems also face the private channels that broadcast to German-speaking audiences, SAT-1 and RTL-Plus.

SAT-1 is a general-purpose channel which was originally operated by PKS, a subsidiary of DGRV (a large savings bank in Frankfurt), and various German publishers (mainly the Springer group, but Bauer, Burda, and the *Frankfurter Allgemeine Zeitung* as well). The channel was launched on January 1, 1984, with the name of PKS for stations in Ludwigshafen and Munich, became SAT-1 from January 1, 1985, and is at present broadcast on sixteen German stations, as well as in Switzerland and Austria. Despite a substantial financial support, SAT-1 is experiencing major difficulties, which are impairing its success: its audience is smaller than envisaged because of the slow development of cabling, poor advertising revenues, technical problems with broadcasting on EUTELSAT 1 F-1, the very great differences between the laws of the West German *Länder* on advertising, etc. In 1986, several shareholders (*Frankfurter Allgemeine Zeitung*, Bauer, Burda) withdrew from the consortium and obtained substantial compensation. In 1985, SAT-1 obtained only 7.5 million DM (Deutschmark) in advertising revenue, whereas it was planned initially to receive 20 million, and the operating budget was of the order of 150 million DM. In 1987 the advertising revenue should be of the order of 10 million DM, with an operating budget of the order of 150 million DM. To this extent—and even if the advertising agencies believe that the market for television advertising in West Germany is the one most likely to develop—it is difficult to see when the channel can achieve profitability.

The competing channel, RTL-Plus, is owned by the CLT (60%) and the publishing group Bertelsmann (40%). Broadcasting by transmitter from the Grand Duchy of Luxembourg to Southeast Germany and via the EUTELSAT 1 F-1 to the cable networks of West Germany, Switzerland, Austria and the Dutch-speaking areas of Belgium, it is experiencing similar difficulties. In

1984–85, its operating losses were approximately 17 million DM. In 1987 its operating budget should be of the order of 75 million DM, with 10 million DM expected in advertising revenues.

The low level of market penetration achieved by SAT-1 and RTL-Plus has lessened their appeal to German advertisers, but their presence has been used to justify a demand for an increase in permitted advertising time on the public-service networks of West Germany. In the long term, however, the German advertising market seems to be so promising that some observers are predicting more success for these two channels than for Sky Channel. The public television services are already obliged to adapt their schedules to the competition of the two channels that are basing their output almost entirely on entertainment and drama series.

The slow development of plans for cabling, the fact that key decisions about direct broadcast satellites are still awaited, doubts about the existence of a sufficiently affluent international market for advertising, the hesitations and withdrawal of several operators among the larger firms (Thorn-EMI, Thames, Havas, etc.), political difficulties delaying completion of the deregulation process, the protectionist attitudes of some governments—any such obstacles stand in the way of the advance of international television channels.

Pay Television Channels

The development of suitable methods for encoding and decoding television signals allows channels to be financed in yet another way, by subscription. The success in the United States of various pay channels was such in the second half of the 1970s that similar projects have sprung up in Europe. The first European pay channel, Entertainment, was set up in Finland in 1978 by Helsinki Television, a private company. Subsequently, several national film channels were established in other European countries: Canal Plus in France, Tele Club in German-speaking Switzerland, Tele Ciné in French-Speaking Switzerland, Weekend Television in Denmark, ITC in Ireland, etc. Such plans are most advanced in Great Britain, following authorization of cable under a light regulatory regime in 1984; in addition to film channels (Premiere, Ten/The Movie Channel) pay services have appeared for children (Children's Channel), sports fans (Screen Sport), women (Lifestyle), the cultured public (Arts Channel) and for lovers of film classics (Bravo). Plans for film channels have also been mooted in West Germany, French-speaking Belgium and Norway.

The sale or hire of decoders enables such broadcasting to be kept within national boundaries, which in most cases is necessary if the rights to show films are to be obtained. It will be noted that the major Hollywood studios, while contributing to the capital of certain pay television channels in Great Britain and the Netherlands, and while taking part in preparatory studies in West Germany and Belgium, have preferred to support several national pay

channels rather than a single European channel. This gives them a greater presence, while allowing them, should the need arise, to withdraw if they judge that a particular project is non-viable, as happened with TEN/The Movie Channel in 1985.

Various pay channels have nevertheless begun to move toward international operation. This has happened with the film channel, ATN/Film Net, whose present shareholders are the Swedish group Esselte, UPI (an association between MGM/UA, Paramount and Universal) and finally Rob Houwer, an independent Dutch producer. Launched in the Netherlands in 1985, and at present broadcast via the Belgian ground station for the Eutelsat 1 F-1 satellite, this channel moved in 1986 toward a policy of internationalization. It is at present possible to subscribe to it if one is linked to a distribution network in Flemish-speaking Belgium, Sweden, Denmark and Finland. Film Net could become the main private channel in the countries of Northern Europe, but it still has few subscribers, is experiencing financial difficulty and offers mainly American material.

Several British pay channels openly display international ambitions. This is particularly so for the channels in which W. H. Smith, the newsagent, is the main shareholder: Screen Sport, Lifestyle and the Art Channel. The need for them to build up a group of subscribers on the Continent is all the more urgent now that the development of cable in Great Britain has fallen so far behind schedule. It is still difficult, however, to become established in continental Europe: at the present time, for example, Screen Sport can be received only on Finnish and Swedish networks. In Sweden it also has to meet the cost of linking the network center to subscribers. In West Germany, the Netherlands, Ireland and Denmark market penetration cannot yet be taken for granted. It should be noted, however, that Screen Sport plans to transmit programs in three languages by using simultaneous soundtracks. It will be interesting to see whether this project, which seems particularly suited to presentation of sporting events, can overcome language barriers.

Programming Problems

The increase in types of broadcasting has produced a new problem for the channels seeking international audiences, namely, programming. It makes little sense to have a larger number of channels if they are all showing the same programs or have quite similar schedules. Thus, the Belgian viewer can at present follow *Dallas* on RTBF, RTL, TF1, the BBC, BRT, NOS and ARD. Generally speaking deregulation in Europe and the birth of new channels benefit American producers: in 1985 the profits made by the U.S. cinema industry from the sale of programs to European channels increased by 56 percent.

The data in Table 2 indicate that programming on the new cross-frontier channels is often far from being European. Thus, the problem of program-

Table 2. *The Origins of Programs Transmitted on Transfrontier Television Channels*

	Percentage of Total Programming	
	EEC Programs	Non-EEC Programs
Europa-TV*	100	
TV 5*	80	20 ¹
3-SAT*	80	20 ²
SAT-1**	52	48
FilmNet*	10	90
Arts Channel***	84	16
Children's Channel	8	92
Lifestyle	11	89
Mirrorvision	10	90
Music Box	77	23 ³
Premiere	13	87
Screen Sport	35	65
Sky Channel	51	49 ⁴

*Estimate.

**Estimate based on a sample of films.

***For the British channels, the figures are taken from the Cable Authority's *Annual Report 1986*. They have been drawn up from a sample covering 13 weeks.

¹Mainly Swiss and Québécois programs.

²Although it is intended as a German-speaking cultural channel, 3-SAT shows a large number of American films.

³These figures seem implausible. The Cable Authority counts 95.5% of the programs shown by Music Box as home made, whereas most of the programming consists of promotional videos, largely supplied by the big American record companies.

⁴The same remark applies to Sky Channel. According to our own estimates, the programs produced in Europe which Sky Channel showed in 1985 did not exceed 20% of total programming.

ming is crucial for U.S. penetration of European television. The creation of additional channels in Europe has not merely been an opportunity for the American audio-visual industry to invest directly in companies (a move denied to them when the first private channels came into being in the mid-1950s) and to sell technology. The new channels form a new market in which the American distributors have lost no time in establishing themselves. If Europe wishes to preserve its cultural identity, it now has no choice but to increase its program production. To the older forms of co-production, which were organized under the umbrella of the European Broadcasting Union, have now been added the initiatives taken by European co-production consortia, bringing together public-service organizations (such as one linking Antenne 2 in France with Britain's Channel 4, NOS, RAI, ORF, RTE, ZDF and others), private companies (Consortium Européen pour la Télévision Com-

merciale, European Production Corporation, Vision, Media International, etc.). But, in addition to the difficulty of making programs likely to interest European audiences and the inescapable costs of translation, the production of programs by these consortia has run into a major financial problem. Until the cross-frontier channels begin to make a profit, there is little hope that they will of their own volition commission significant amounts of production. The policies concerning the protection and encouragement of European production which the European Community and, to a limited extent the Council of Europe may adopt take on a decisive importance in the shaping of these new commercial services, as well as in the preservation of the established public-service channels.

The EEC Green Paper on Television without Frontiers

The developments described above provide an answer to the question of why a European television policy is needed. It is precisely because there is emerging a dangerous no-man's land between the traditional national and ethnocentric control of systems and the exponential projection of what a former chairman of the U.S. FCC called "the wasteland of television" that the need arises to devise a European television policy that can complement the several national policies.

It is, alas, easier to postulate the need for such a policy than to enunciate one and, *a fortiori*, to make it work. Is there any point in having a policy at all? To implement a policy one must, in television terms, establish a gate-keeping operation whose purpose is to open the gates to those who conform to the policy and close them to those who do not. Will the new technology allow any gates concerning political, economic or moral standards to be instituted?

The European Commission has in recent years manifested a concern for transfrontier television originating from the need to open up the movement of television signals between member states of the Community. The Commission's Green Paper *the Establishment of the Common Market for Broadcasting, Especially by Satellite and Cable* (EEC Commission, 1984a) was prepared in response to a resolution of the European Parliament of March 25, 1982, which asked "that outline rules should be drawn up on European radio and television broadcasting, inter alia with a view to protecting young people and establishing a code of practice for advertising at Community level."

The Commission's initial response to the Parliamentary resolution was an interim report on *Realities and Tendencies in European Television: Perspectives and Options* (EEC Commission, 1983). That report dealt mainly with the scope for creating a European television channel. It did not touch on the much more difficult question of the *locus standi* that the European Community can claim to have in the broadcasting field, and of how it should act.

It was this question that was tackled in the Green Paper. Commissioner Heinz Narjes explained during a brief initial debate on the subject in the European Parliament on May 25, 1984, that "the purpose of the Paper is to examine the significance of broadcasting for the progress of integration as a whole, and to demonstrate the relevance and application of the Treaty of Rome to this field of activity in order to set limits to the efforts to those lawyers who might try to deny us any powers to act on it." The Green Paper discussed the technical, social, cultural and economic aspects of broadcasting on a European scale. The social and cultural sections were the least satisfactory, however, because they dealt with major matters of policy which are deemed to lie outside the limited framework of the Treaty of Rome. The prodigious labors of the Commission's Lawyers in assembling evidence and case law demonstrated, to the Commission's satisfaction at least, that the provisions of the Treaty of Rome do apply to transfrontier television, and that the Community can reasonably claim to have the power and the duty to act in relation to this service industry.

The Commission's work on the significance of broadcasting for the progress of European integration has not commanded universal agreement. Some of the smaller countries and language groups have recognized that the transnational possibilities opened up by developments in communications technology require a European solution, if necessary under Article 235 of the Treaty of Rome (which allows the Community to act in matters on which the Treaty itself has not provided the necessary powers if member states are unanimous). Most of the larger countries believe that they can maintain their national autonomy and are therefore anxious to minimize the impact of Community legislation on their existing national provisions.

The Draft EEC Directive

Following an extensive process of consultation between 1984 and 1986 the European Commission on April 28, 1986, sent to the Council of Ministers a draft directive on "the coordination of certain provisions laid down by law, regulation and administrative action in member states concerning the pursuit of broadcasting activities" (EEC Commission, 1986). The measures contained in the draft directive would allow the free transmission and reception in all member states of the Community of all broadcasts originating in the member states. This is not just a matter of creating fair competitive conditions for all broadcasting organizations throughout the Community; but one of allowing the free circulation across frontiers of broadcast advertising, thus contributing to the achievement of an internal market for all goods and services by 1992.

Such measures may well be favorable to the European economy. It is, however, far from certain that they will have as positive an effect on the

quality of broadcasting. The opening of frontiers and the increasing competition among broadcasting organizations may, on the contrary, lead to a greater segmentation of the audience; to a reduction in revenue for individual channels; to a consequent need to lower costs by using ready-made material; and thus to an irreversible decline in quality.

If measures establishing a common market for broadcasting are to be introduced, it is therefore necessary also to take measures to protect the quality of services. The adoption of quotas, safeguarding local production and practical steps to support and develop such production are two such measures. The creation of a European fund to support cinema and TV co-productions was the subject of a draft regulation in 1985 which has not so far been adopted. The opinions on the draft directive formulated for the Education and Cultural Committee of the European Parliament by Professor Wilhelm Hahn and for its Monetary and Economic Affairs Committee by Mr. Gijs de Vries have underlined that the cultural and economic aspects of broadcasting cannot be separated. This view is supported also by Mr. Kenneth Collins, the rapporteur of the Parliament's Consumer Affairs Committee. All three rapporteurs agree that a directive provides the necessary legal framework while leaving matters of detail to be settled at the national level.

For its part, the European audio-visual industry has great potential but is currently threatened by cut-price imports. The mere abolition of some of the hindrances to the free circulation of programs is therefore insufficient to ensure its future in the face of competitive products from outside the Community. Support measures are necessary for its expansion (and in some cases for its survival). Such measures are justified on similar grounds as the support measures adopted by the Commission for other industrial sectors experiencing difficulties, such as coal, steel, ship-building and fisheries. It is necessary to devise such measures alongside the draft directive in order to avoid the latter's leading to consequences contrary to those intended. The program of *Action for European Audio-visual Production* (EEC Commission 1986.6) — known now as the MEDIA program — is a first step in this direction. It looks to the reinforcement of the capacity of the European audio-visual industry to compete in the area of dramatic series and serials, which are at present dominated by American products. Other measures are needed to develop production and to maintain the quality of programs that has so far prevailed in most European television.

Several provisions of the draft directive have attracted a good deal of opposition from certain member states, notably the Federal Republic of Germany, Denmark and the United Kingdom. For example, the principle of program quotas has aroused complaints from broadcasting organizations in these countries. On the whole, these bodies already respect self-imposed quotas arising from their obligations as public services. Research on the origination of programs broadcast in European countries (European Institute for the Media, 1987) shows that on all the European channels (apart from the

private channels) at least 67 percent of the programs broadcast for the first time in 1985 were national or EEC productions. The introduction of national and EEC production quotas in the draft directive is justified by the fact that quotas applying to all broadcasting organizations equally would protect the public services against unregulated competition from new transnational commercial TV operators.

As for the amount of advertising to be allowed (traditionally regulated by national statutes and authorities), a fixed limit is proposed in the interests of legal certainty. Both broadcasters seeking to cross frontiers and consumers and competitors need a guarantee that incoming broadcasts will respect a prescribed maximum. As to the nature and level of the limit, the Commission considers that it is of fundamental importance that the maximum should not be so low as to exclude from the European market existing well-established broadcasters. A maximum as low as 10 percent per hour could lead to restrictions on retransmission in other states of television programs from Germany (ARD, ZDF, private broadcasters), Ireland (RTE), Italy (private broadcasters), Luxembourg (RTL, RTL Plus) and the United Kingdom (ITV companies). This is the main reason why the maximum level proposed is 15 percent of daily broadcasting time. It is thought that this strikes a reasonable balance between economic and cultural considerations and ensures that the development of new broadcasting services will not be hindered.

As for copyright, the draft directive advocates contractual agreement between the holder of copyright and related rights and the television operator. In the absence of such an agreement after two years of negotiations, governments would be free to enforce a system of statutory licences. These provisions make every allowance, and indeed express a preference, for contractual solutions both before and after a notification of a concrete obstacle by an operator. But the realities, based on past experience in member states like Belgium and the Netherlands, suggest that statutory licencing, or some means of resolving situations of deadlock, is essential if the Community is to realize an internal market in broadcast services within a reasonable period of time.

At the time of writing the draft directive was under active discussion in the Council of Ministers, and the intention of the Belgian Presidency of the Council was to complete the consideration of the draft during its term of office which would end on June 30, 1987.

The Approach of the Council of Europe

The movement of the institutions of the European Community towards a legally binding directive on transfrontier broadcasting raised fears in some member states that the Community proposed to legislate in a field which lies outside the bounds of the Treaty of Rome. The arguments set out earlier in this chapter suggest that the regulation of transfrontier services is within the

bounds of the Treaty. Those member states which have reservations about intervention of the European Community in this field have explored the possible use of instruments at the disposal of the Council of Europe, whose membership includes virtually all countries in Europe outside the Warsaw Pact countries.

These explorations were brought together at a meeting of Ministers responsible for Communications in the member states of the Council held in Vienna on December 9 and 10, 1986. At the conclusion of this meeting the Ministers issued the following communiqué:

Mass Media Ministers from the whole of democratic Europe today agreed to frame legally binding rules for transfrontier broadcasting to meet the challenges posed by the introduction of new communications technology. The Europe-wide rules, which will be drawn up by the Council of Europe, could apply to areas such as program standards, advertising, sponsorship, copyright and the leasing of satellite capacity. Appropriate means for preventing or solving possible disputes are also foreseen. To avoid a flood of imports from outside Europe as cable and satellite services expand, the Ministers pledge action to step up the production and screening of European programs and incentives to boost investment in Europe's audio-visual industry. The Ministers also agreed that the Council of Europe, with its broad membership and its commitment to human rights and European cultural values, is the most appropriate institution for shaping a European audio-visual area and implementing a coherent mass media policy. Ministers responsible for mass media from the twenty-one Council of Europe countries, Finland and the Holy See were meeting for the first time on December 9 and 10, 1986, in Vienna with Austrian Foreign Minister Peter Jankowitsch in the chair. [Council of Europe, 1986]

The practical outcome of this conference is likely to be the drafting of a European Convention on transfrontier television for the next meeting of Ministers in 1988. Such a convention is likely to cover similar ground to that covered by the draft EEC Directive. A Convention is, however, generally less binding and does not come into operation for the member states until their individual Parliaments decide to ratify it. Although, therefore, the proposal for the drafting of a Convention was agreed in Vienna without much difficulty, it remains doubtful whether such an instrument will prove adequate to withstand the pressures which may arise in the field.

The attitude of the European Commission to the proposals of the Ministerial Conference was explained by Lord Cockfield, the Commissioner responsible for the Internal Market of the Community, when he addressed the Legal Affairs Committee of the European Parliament on February 6, 1987:

We are indeed pleased to see that the Commission's view that legally binding arrangements are indeed needed in this field seems at last to have been accepted in the wider association of the Council of Europe. That should facilitate the development of a coherent relationship between the Community

and the Council of Europe. It will be necessary for the purposes of the forthcoming negotiations that the Community member states co-ordinate their views as to the position to be taken in these negotiations. This is essential because the subject matter in some cases will be much the same as that dealt with in the Community directive. The Commission will do everything it can to avoid the danger that the member states agree in the Council of Europe measures which are different from or even incompatible with the line to be adopted within the Community. At the same time, it would probably be a mistake to believe that the activities of the Council of Europe can substitute for the Community's own policy which will find its expression in Community legislation. The purposes, nature and mechanisms of the two organizations are different. Those differences have clear and inevitable consequences for the kind of arrangement that is appropriate to each in the broadcasting field. The Community is actively engaged in completing an internal market by 1992. That internal market extends to services as well as goods, and broadcast and audio-visual services will form a dynamic part of the service sector in the years ahead. For the Community then, policies and instruments are needed which will realize this specific and fundamental goal. In addition, the realization of a common market for broadcasting will have important, positive effects on the Community's cultural activities and indeed on each citizen's awareness of the richness of its different cultural identities.

The twenty-one states of the Council of Europe form a looser association of states, sharing certain of these goals, values and interests. But they are not committed to the realization of an internal market or anything like it. They are cooperating in so far as they can identify common principles for broadcasting laws, which nevertheless will remain fundamentally national in focus. At present, it is unlikely that a Convention between the twenty-one could provide a legal guarantee of access to audiences throughout the Community. Community rules on broadcasting will not simply constitute obligations for broadcasters. At the same time they provide the legal foundation for Community-wide broadcasting activity. This is not simply a theoretical matter. A survey carried out by the Council of Europe itself on the operation of its various recommendations shows quite clearly that the kind of arrangement that can be reached in that context changes little in the real world. Only the creation of a legal framework expressly designed to permit free circulation on the basis of agreed basic standards, leaving states free to implement those standards in different ways, will provide the solution. It is extremely unlikely that the Council of Europe would be able, or even wish, to create such a framework among its twenty-one members. For this reason, we continue to see the two exercises as complementary, each having its proper function and neither being capable of substituting for the other.

A New European Framework?

The policy issues affecting transfrontier broadcasting in Europe have been set out at some length in this chapter. They illustrate the difficulty of replacing the national legislative instruments which have determined the media systems

in Europe for the last generation. Although value judgments have been largely implicit in that legislation, there has been little difficulty in practice in identifying what those values are. They include the affirmation of an element of political impartiality; a recognition of the comprehensive work of broadcasting services, covering entertainment, information and education; a regard for the interest of minorities; a commitment of objectivity and truthfulness in news reporting; provision of a right of reply in the case of misrepresentation.

The growth of transfrontier broadcasting is demonstrating the need to identify a European framework of related objectives for the media. But this identification is rendered difficult by the causes which are bringing about these changes. First, space technology enables television transmission to break free from the spatial limitations of terrestrial systems. Second, there is a market-led desire to provide a multitude of new private services financed by advertising revenue. It is therefore important to find ways of securing for the whole of Europe that:

- (1) the quality of the existing public service channels is maintained; and
- (2) the new commercial services will introduce elements of quality and innovation in what they provide for the viewing audience: they should be originators and not merely distributors of program material.

In seeking the means to achieve these objectives, it is essential to consider the time scales, both of broadcasting developments and of possible measures for guiding and shaping them. Measures which can be implemented only in the medium term are likely to arrive too late to be effective. Some of the broadcasting services which they are intended to control have been, or are about to be, launched. Governments should therefore in the current discussions confirm their intention of securing for public-service broadcasters the means of maintaining European cultural traditions, and of continuing the provision of full and diversified programs for both majority and minority audiences. Similarly, every effort should be made to work out financial, fiscal and administrative measures to stimulate European audio-visual production, to encourage co-productions and to increase program movements among European countries by means of improved facilities for language conversion. The importance of applying to new services those minimum requirements for proportions of domestically originated programming that apply to the existing public services cannot be overemphasized. The plea that commercial operators with limited resources should have the right to diffuse low-quality programs cannot withstand reasoned argument. And yet the issue of dilution via a segmentation of audiences has not been generally appreciated. The reason for this is that the maintenance of what Lord Reith called "the brute force of monopoly" has been physically possible until recent times. In most parts of Western Europe the monopoly may have been broken during the last ten to fifteen years. It has been replaced, however, by the creation of an

oligopoly limited to three or at most four channels, all of them operating on the basis of shared assumptions.

Now for the first time since the introduction of television in Europe there is a serious threat to the survival of these oligopolies. The delay in the introduction of direct broadcasting satellite transmissions, combined with the slower-than-expected expansion of cable services in most countries, has masked the serious nature of the threat. Recent years, however, have seen a significant acceleration in the rate of change. It may be expected that the acceleration will continue and that by the mid-1990s the remaining oligopolies will have been broken by the effective expansion of satellite and/or cable services across Western Europe. This will effectively challenge the time-honored audience shares of the existing services and may, unless action is taken soon, reduce their ratings so as to render them at best marginal, at worst condemned to extinction.

For this reason, there is an urgent need for the creation of a new framework for television standards to be accepted at the European level. The draft legislation being prepared by the European Community and the Council of Europe can deal with certain aspects of such a framework, such as the volume of advertising, aspects of copyright and even the quantitative aspects of European production. But the essential ingredients of "good broadcasting" as defined earlier are not easily susceptible to legislation. They require an element of consensus about desirable objectives and about the means of achieving them. Such a consensus can be achieved by peer group pressures, reinforced by the development of a common universe of discourse among those responsible for television services.

The emergence of new objectives—for example, about the undesirability of the maximization of profits at any cost—can come about only by the creation of trust over a period of time. Again, the recognition of the public accountability of the broadcasters, whether public or private, is a matter of growth in a climate favorable to such recognition. In many ways it runs counter to the individualistic public philosophy of the present times. And yet, without some such development there is no future for television in Europe other than as a vehicle for advertising. And that would mean the abandonment of a tradition which is the envy of the world as well as being, at best, a significant force for the maintenance and transmission of the European cultural heritage.

How could such a convergence of views among broadcasters of different backgrounds be brought about? It would require a place of encounter between the traditional broadcasters and the new entrepreneurs. At present no such opportunities for encounter exist. The European Broadcasting Union is a trade association of public-service broadcasters, which, understandably, has hesitations about admitting commercial entrepreneurs that do not *ab initio* accept its assumptions and rules. Unless, therefore, the EBU can find a formula for admitting them, a new framework has to be created. At first this

would be loosely structured so that all those concerned could find a place in the structure. Gradually the participants might grow together, for good reasons and bad. They might identify common objectives and begin to work towards common goals. Without becoming a yet more powerful oligopoly they might in the course of time recognize standards, values, agreed disciplines and common achievements which would enable them to claim to stand in the genuine tradition of European public-service broadcasting.

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