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**DIFFERENT WAYS, SAME OUTCOME?
LIBERAL COMMUNICATION POLICY AND DEVELOPMENT
OF PUBLIC BROADCASTING**

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Abstract. The European Union declares that for democracy and pluralism in member states a strong and independent public service broadcasting (PSB) is needed. Patterns chosen by each country and available time for development vary a lot. Despite the wide variety, the universal intersection and similar characteristics between countries and country groups can be found. At the time of increasing market pressure, securing quality, diversity and pluralism of available media content needed for democratic societies, is a task of communication policy. Analysis of the communication policy from political and economic aspects is a helpful tool for shaping the regulation of public service broadcasting in the digital era. The current article looks into overall relations between a country's economic standard, PSB financing levels, historical background and audience market share trends of European public service broadcasters. More detailed focus is on the Baltic countries' PSB financing and performance developments. The case study will open up a background where major political and economic factors affected the development of TV-broadcasting in Estonia during 1994–2010, as well as the modern role of Estonian Public Broadcasting.

Keywords: public service broadcasting, commercial television, media policy, media market, media economy, media legislation, Estonia, Baltic, European Union

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1. Introduction

After the restoration of independence Estonia chose, compared to the other Central and Eastern European countries the most liberal way of development (Knell and Srholec 2007, Holmes et al. 2008). The latter was chosen for rebuilding the state as a whole, as well as designing the new media landscape. If to benchmark Estonian outcome with other Baltic states, new democracies in Central and Eastern European countries and 'old' Western European states, the question arises

– are Estonia, Latvia and Lithuania with low daily viewing numbers of PSB on media landscapes far ahead of the rest of Europe, or are these countries so badly falling behind that (Western) European standards can never be achieved? This research shows that a country's economic development (valued as Gross Domestic Product) is one characteristic which has a strong correlation with PSB performance in the past and most probably also in the future.

When analyzing the development of the public service broadcasting, according to the concepts of Blumler and Gurevitch (1995), the main characteristic of Baltic broadcasting landscape can be presented: media policy bias towards economic welfare of commercial broadcasters, whereas the public service interests are secondary. The implementation of the European Union media regulation and the economic situation of television stations, conditioned by the size of the Estonian television market, led to the enforcement of the legislation which was economically advantageous and protectionist towards commercial TV-stations owned by international corporations. As a result, profit for private television companies was guaranteed but, at the same time, the value of the offered contents diminished.

From the end of the 1980s, Eastern and Central European countries had the noble aim of changing from the communist regime towards free democratic welfare states. Among important aspects of development were changes in media systems. In transition states, commercial broadcasters were founded, state-owned print media was mainly privatized, state radio and television companies were turned into public service broadcasters. It has been challenging to reform vast communist party propaganda machines into efficient public service media. The European Union legislation had major impact on this process (Harcourt 2003, 2005, Jakubowicz 2003, 2004a, 2007a, 2008a, Jõesaar 2005). 'Europeanization', as defined by Jakubowicz (2009), took place. Even when the Pan-European media policy aims – preserving cultural diversity and safeguarding media pluralism – were common, the ways chosen by countries and the achieved results vary a lot (Jakubowicz 2007a, 2007b, 2009, Ognyanova 2009, Richter 2009, Svendsen 2002, Wyka 2009).

EU media policy is grounded on common market ideology. The former Television Without Frontiers Directive (TVWF), now the Audiovisual Media Services Directive (AVMSD), does not take into account country-specific circumstances such as size of the national (and media) market, economic conditions, cultural and historical specific context. However, these are important factors which have a strong influence on media development and performance. Implementation of the same EU legal framework in different circumstances gives in different member states different results. The size of the market determines available resources. In smaller member states there are fewer resources available for national channels compared to niche channels of large states (Doyle 2002). In the first place, commercial broadcasters focus on broadcasting main stream programming. If a market is big enough for profitable business, and resources are available, the launch of niche channels will follow. Due to the market limitations, it is unprofitable to launch niche channels on smaller markets. The diversity of programming

offered will be lower in smaller states than on large markets. Therefore PSB on a smaller market is even more responsible for delivering diversity programming and for high- quality information.

Although the technological development would seemingly diversify the uses of media, it has also brought about concerns over fragmentation, extreme individualism, loss of common public platforms, and their consequences for the public sphere (Gitlin 1998). Van Cuilenburg (1998:41) has presented some of these problems in 'diversity paradoxes'. /.../ The explosion of information increases choice, but also leads to high degrees of information waste and to an overload of information. Even though the expansion of channels might lead to increased choice, there is no corresponding effect on the citizens' access to relevant information (Karppinen 2007:15).

It is important to analyze how a similar political toolkit delivers different results on different markets and in countries with different political culture.

Inequality is magnified by modest economic conditions of CEE countries. European Commission is concerned about the possibility that state aid (in other words over-financing) for PSBs might hinder development of commercial broadcasters, but at the same time there are no legal or any other instruments to measure and to avoid under-financing of public service broadcasters. AVMSD is regulating broadcasting and new media from the producer–consumer perspective. The well-being of PSBs depends only on the conditions of each member state.

2. Research questions

The current research compares the PSB funding, national GDP levels and PSB audience shares in Europe. PSB accountability, detailed fulfilment of country-specific PSB remit and other governance or content-related questions are left out for further investigations.

In the long run it is expected that due to the one-market policy, living standards of EU will level off. But does this mean that the position of PSB broadcasters will also equalize? If we look at PSB financing and view the trends during the last decade, what kind of future Baltic (especially Estonian) PSB might we have in the digital era?

Will different political cultures and PSB traditions in Western Europe and Central and Eastern Europe bring similar results in case PSB performance is measured by the share of viewing? Is there a direct correlation between GDP per capita and PSB audience share?

If to compare countries by PSB revenues or by state funding per capita, are there similarities with groups of countries with the same living standards or is these criteria overestimated? Does the size of a country matter?

In the first part of this article, an overview of the main financing and viewing trends of the European PSB are presented. The second part of the article is dedicated to the analysis of the Baltic television market. European data will be

supplemented with more detailed analysis of Baltic television market's economic aspects, PSB funding and audience market share.

The third part is a detailed description of the major political and economic factors which affected the development of TV-broadcasting in the Republic of Estonia during 1994–2010, as well as the modern role of Estonian Public Broadcasting. Finally, the relations of media policy and market situation in Estonia are tackled. The diachronic approach in analysing political and economic factors explains how these factors have shaped media in small markets during the last 15 years.

3. Theoretical approaches

There are two main approaches to organizing the media – the free market liberal and collectivist-statist strategies (Curran 1997:139). Coming from the communist regime, an alternative, the collective provision was difficult to introduce due to the experience from recent past. Therefore mainly the first strategy was introduced in CEE countries, especially in the Baltic states. The private ownership of media was idealized by ruling politicians (Jõesaar 2005).

The crucial function of the mass media is to sell audiences to advertisers (Smythe 1977, Garnham 1997:60). The functioning base for private media is in the first place driven by the basic principles of market economy, not by the needs of civil society. “One dollar, one voice” is a generalization of market economy principles by Croteau and Hoynes (2001:21). This is a simplification of mass media essence, but it is a relevant factor which is shaping especially commercial media and through this the whole media economy. Privatized communication markets address people primarily in their role as consumers rather than as citizens (Murdock and Golding 1989:192). Modern world is driven by economic growth. Economic growth of media is largely driven by entertainment. Challenged by entertaining commercial broadcasters, the public service broadcasters have difficult times to keep their audiences (Picard 2002a) (see further: ‘Europe on a high level’) and especially in CEE countries to define their roles (Jakubowicz 2004b).

The areas and effects of the new communication policy paradigm, described by Van Cuilenburg and McQuail (2003), indicate that for serving the main goal – public interest – political, social-cultural and economic values should be balanced (Figure 1).

Research-based theories below claim that (at least in broadcasting) economic welfare is a dominating value in communications policy. Restricted market entry and global concentration of ownership encourages common denominator provision for the mass market. A market-based media system is incapable of presenting a full range of political and economic interests in the public domain and find expression in popular fiction (Curran 1997:140). Fengler and Ruß-Mohl (2008) rely on an economic theory of journalism and state that self-interested behaviour of journalists is shaping media, and economy is seen as a driving force.

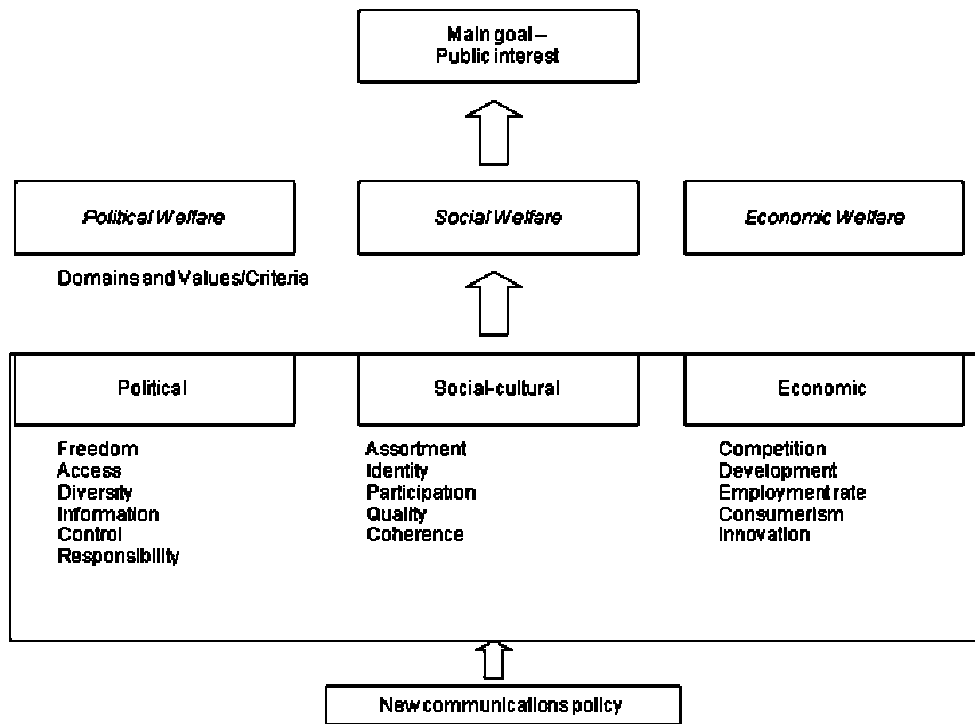


Figure 1. The areas and effects of the new communications policy (Van Cuilenburg, McQuail 2003: 184 chart 4.).

Starting from researches of news production (Hamilton 2004) to the investigation of whole programming (Picard 2002b), the same conclusions are made – economic interests drive the whole content production. ‘Homo economicus maturus’ is a rational actor maximizing his own benefits with the help of cooperation (Frey 1997 in Fengler Ruß-Mohl 2008). Besides analysing an individual person as an actor, the same theory can be used for interpreting actions of media organizations or states. The theory of firm asserts that ‘the development and operation of firms is guided by the primary goal of maximizing profit and the value of the firm’ (Hoskins et al. 2004:3). It can be said that starting from the individual person through the newsroom, programming department, media company, member states governments and parliaments up to EU media policy level, the market-based approach is dominating.

Market forces do not guarantee that the media will serve their non-economic function as institutions of the democratic public sphere, and in many ways the breakdown of the forces that counterbalanced market forces has already taken its toll on the quality of news, sensationalism and other ethical problems, biases in the segments of society served by the media, and in some cases potentially dangerous concentrations of media power (Hallin 2008:55).

Balancing the market-based media is relatively new, but an increasingly important role for public service media (Croteau and Hoynes 2001). In Europe, the function of public service media is largely carried out through public service broadcasting

Critics of public service broadcasting claim that public funding causes market distortion. This assertion is not affirmed by McKinsey & Company who in its report concluded that “there was no evidence that commercial revenue was ‘crowded out’ by high levels of public funding, and that despite complaints from commercial operators, public funding did not reduce the availability of advertising and subscription funding” (UNITEC 2005:170).

Broadcasting is an economy of scale. The cost of broadcasting services is not proportional to the population size. UNITEC researchers represent this as an ‘S’-curve and the Critical Mass dependency (Figure 2).

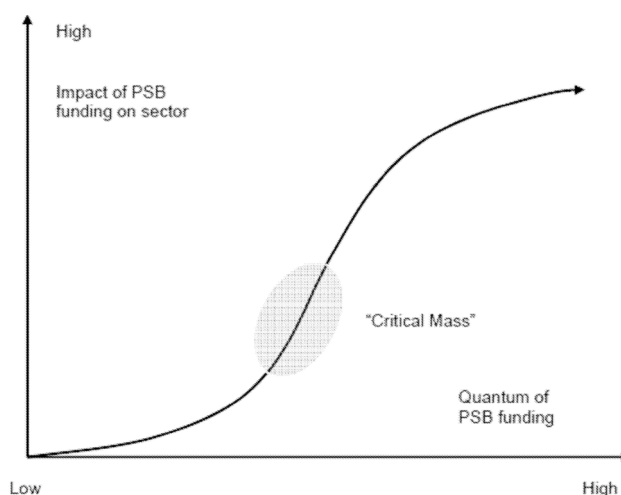


Figure 2. Critical Mass argument of PSB funding (UNITEC 2005:173).

To achieve the desirable impact in society, smaller countries need to make a bigger effort than large economies. The same PSB funding percentage from GDP give different results when the outcome is measured by audience market share (daily share of viewing) (See Conclusions).

The decline of state dominance on global market brings us to the question of possible PSB marginalization and diminishing audiences. Wealthier countries have more resources to withstand this threat. For smaller countries, especially with lower GDP levels, there is a serious challenge to avoid PSB marginalization. To achieve the Critical Mass, smaller countries should have relatively higher level of state funding from GDP than bigger countries.

3.1. PSB development in Central and Eastern Europe

Peruško and Popovič (2008) summarize that the media systems of the post-communist countries of Central and Eastern Europe have been shaped by the democratization in the 1990s, new economic forces and by technology. In many CEE societies, the process of transformation from state into public service television is still ongoing (Isanovič and Sükösd 2008). In recent years several researchers, especially Karol Jakubowicz, have examined the development of public service broadcasting of Central and Eastern European countries. Analyses of broadcasted content, accountability, legislation, governance and journalistic independency are made (Lowe and Jauert 2005, Wyka 2009). The accent still being on Central European countries, the Baltic countries have so far received less attention.

Jakubowicz (2008a:107) relied on Linz and Stepan's (1996) concept of consolidated democracy, which listed four minimum conditions needed for democracy to operate properly and to secure media freedom and autonomy:

1. Sufficient separation of political, civil and economic societies, state administration and the rule of the law in a way that proper separation of powers is achieved, and the economy (and PSB) is outside direct political control;
2. The existence of a strong civil society;
3. The effective economy and markets to guarantee financial success and sustainability of media needed for independence and development;
4. Legal framework to protect media autonomy.

From these listed conditions, less research has been done about the connection of a country's economic situation, actual financing of PSB companies and audience figures. Lange (2008) produced a research about public service broadcasters' public funding and audience market share in 23 European countries, but in this survey the criterion of the countries' Gross Domestic Product (GDP) was not taken into account. GDP is a universal tool for benchmarking countries with different economic standards. For better understanding of PSB position it is important to additionally compare the absolute numbers, and also relative numbers based on different economic development levels of each country. GDP per capita enables a better comparison between states with different populations.

The importance of sufficient financing of PSB has been pointed out by many researchers (McQuail 2010, Picard 2002a, 2002b). It is obvious that financial resources are needed for fulfilment of PSB remit. But it is not so straight forward to conclude that high level of financing will automatically secure PSB audience market share.

Commercial and public service broadcasting are two important actors in the public sphere and in the media systems. PSB without audience cannot be an actor in a public sphere. McQuail's structural approach says that "(C)ommercial media systems tend to concentrate more on entertainment, while public service media provide relatively more information and traditional culture" (2010:19). A dual media system where commercial sector and public service providers are function-

ing together should form the basis for a democratic media system as described by Curran. Functioning a balanced media system should be the outcome of the countries' media policy and implemented by the rule of law.

Based on a study of seventeen Western European countries, Hallin and Mancini (2004) formulated three main media system models: 'liberal', 'democratic corporatist' and 'polarized pluralist'. Their research is expanded by Jakubowicz who compares the 'polarized pluralist' media system model of the Mediterranean countries with post-communist countries and finds out some similarities: late democratization, insufficient economic development, weak-rational-legal authority combined with dirigiste State (Jakubowicz 2008b:47).

3.2. *Mixed Baltic*

The Baltic, as one sub-group of post-communist countries, still has several characteristics from other two models. From the 'liberal' model: strong development and dominance of commercial press and private broadcasting, limited government, separation of media institutions and political parties, moderate and individualized pluralism. Unlike the 'pure liberal model', strong rational-legal authority does not exist in the Baltic countries.

The relatively high professionalism of journalism and the modest presence of (political) clientelism corresponds to the 'democratic corporatist' model. The role of the state interference into media is strong not through the regulation of content (freedom of press is high (Freedom House 2009)), but it is an institutional action – the state finances public service broadcasting (and a certain part of cultural publications).

At the annual conference of the International Communication Association in 2009 held in Chicago, USA, Auksė Balčytienė and Vytautas Magnus described in their paper¹ the Baltic media system as a Mixed Model, adding three new dimensions to the comparative analyses:

1. The size of the media market. Shortage of human and financial resources are unable to confront severe effects of global commercialization;
2. Political culture. "When values are unclear or mixed, comfortable conditions are created for populism to emerge and dominate in the public sphere";
3. Media commercialization. Absence of adequate public control, gradually decreasing political parallelism, liberal business environment and liberal state policy.

3.3. *Home alone – Estonia*

Knell and Srholec (2007) have analyzed the post-communist countries using Varieties of Capitalism framework defined by Hall and Soskice (2001). Their

¹ Balčytienė, Auksė and Magnus, Vytautas (2009) "Small can also be multicultural: rediscovering Baltic media characteristics in a mixed model". http://www.ptks.pl/konf_chicago_balcytiene_harro.pdf

finding provides a strong cornerstone for further media analyses – Estonia is described as a country with a liberal market economy. Buchen's research comes to the same conclusions after comparing Slovenian and Estonian economies (Buchen 2007). And during the development, the small size of the market also plays an important role (Puppis 2009). The small size of the market has been an advantage in building up Estonian e-State (Charles 2009), but a disadvantage where national broadcasting is concerned. Damijan and Kell (2005) have examined the importance of foreign investments to secure competitive technological development. This parallel is also relevant to media industry.

(Some) Estonian media industry characteristics are:

1. strong media regulation is not enforced by the legislator;
2. the existing state regulation is rationalistic (technical, i.e. frequencies, not regulating the content);
3. mass-media is independent from political parties;
4. the media connected to various political and social groups is not very strongly developed;
5. readability of newspapers is high;
6. the professional level of journalism is considered as satisfactory, opinion diversity dominates.

Hallin and Mancini consider instrumentalization as one of the features of professional category. Journalism may be controlled by exterior agents – parties, politicians, social groups or movements, economic forces looking for political impact, etc. From time to time, the question of journalism's positive or negative inclination towards or against one or other political force has been raised in Estonia (generally during election periods). About the television stations' programs it may be stated that the increasingly dominating entertainment in Estonian private television channels (Shein 2005) proves the direct use of the channels' program policy as a tool of advertisement market.

4. Methodology and data sources: Europe on a high level

For financial and population data, the main sources used for the current analysis are International Monetary Fund GDP report (IMF 2010), European Audiovisual Observatory materials from 2004 until 2010, Baltic statistics from the Ministry of Finance and national public service broadcasters' annual reports. Audience data is collected from EBU SIS database (1994–2009), European Audiovisual Observatory materials from 2004 until 2010 and for Baltic from TNS audience surveys (1994–2009). These sources give reliable and comparable data needed for analyzing financing and viewing trend developments during 1994 – 2009.

The first step of the research is to compare European states based on:

1. GDP per capita and GDP growth per capita;
2. funding of public service companies;
3. audience market share of PSB companies.

To have a more descriptive overview instead of absolute numbers, GDP and PSB funding sums are shown per capita. From a variety of different audience measurement indicators the yearly average daily share of viewing (SOV) is used. SOV is the most descriptive also from market perspective and therefore it is also known as broadcasters' audience market share.

4.1. Europe country groups

Having in mind the PSB focus in the present research, European countries are divided into five groups:

1. Big5 – France, Germany, Italy, Spain and the United Kingdom;
2. Mid – middle-size Western European countries: Austria, Belgium, Ireland, the Netherlands, Portugal and Switzerland;
3. CEE – Central and East European new democracies – Croatia, the Czech Republic, Hungary, Romania, Slovakia, Slovenia and Poland;
4. Scandinavia – Finland, Sweden and Norway;
5. Baltic – Estonia, Latvia and Lithuania.

Small markets as Lichtenstein, Luxembourg, Monaco, Vatican etc are left out due to the fact that they do not have PSB; some CEE countries as Bulgaria, Macedonia etc are left out because reliable and comparable PSB funding and audience data is not available.

4.2. Benchmark for comparison – GDP

International Monetary Fund statistics show that despite relatively faster economic growth of the so-called new economies in 2002–2007, there is a still big gap between 'old' Europe and the post-communist countries. IMF predicts that during the next five years the gap will increase in absolute numbers, especially if to compare the Baltic countries with Scandinavian countries (Figure 3).

GDP per capita itself cannot be by default the only criterion to predetermine the position of PSB. But as shown in Figure 4 there is a correlation between the

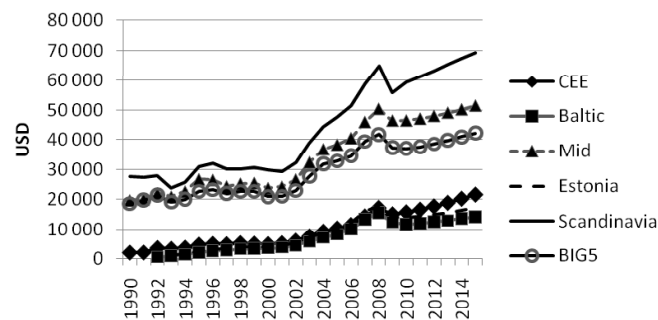


Figure 3. GDP per capita in European countries. 1990–2009 actual sums are presented, estimation from 2010 and further. Source: IMF 2010

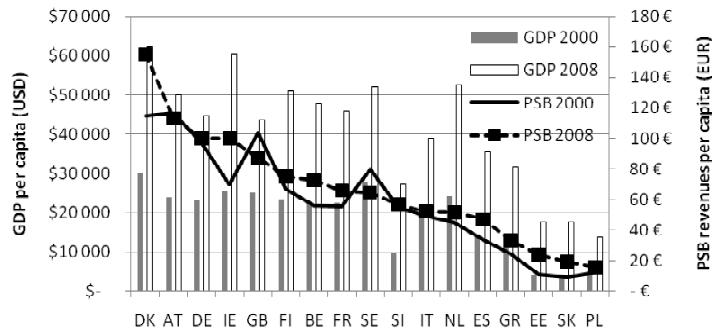


Figure 4. Change of PSB revenues per capita and GDP per capita. Source: the authors’ calculations based on data from IMF and EAO IRIS Plus 2010

growth of PSB revenues (including commercial revenues and public funding) and GDP growth.

The rough rule is that ratio PSB revenues per capita divided by GDP growth per capita are relatively higher in Western European countries than in Central and Eastern European countries. Austria, Sweden and United Kingdom are exceptions and in these countries PSB revenues per capita have decreased. Also PSB revenues in absolute numbers per inhabitant (Figure 5) show that in CEE countries PSBs have much less financial resources than in the rest of Europe.

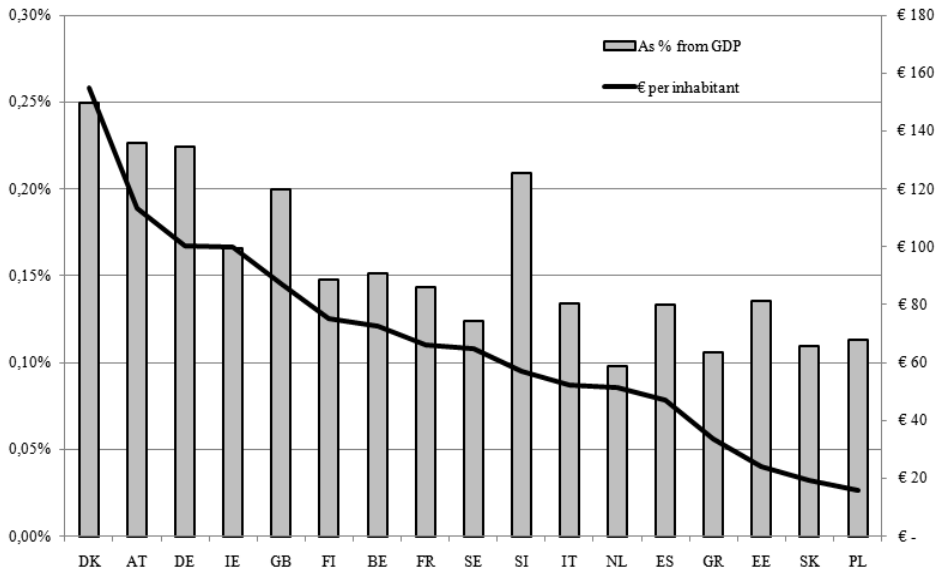


Figure 5. PSB revenues per inhabitant and as percentage from GDP per capita in 2008. Source: EAO IRIS Plus 2010, authors’ calculations.

Lower funding of PSB in CEE and Mediterranean countries cannot be explained only by lower GDP. Similarities of CEE and Mediterranean media systems described by Jakubowicz earlier in this article indicate that there is less political will to finance PSB in new democracies than in old ones. This conclusion is supported by the fact that not only in absolute numbers, but also relatively from GDP, public service broadcasters in these countries have fewer financial resources to use than PSBs in the rest of Europe. (The Netherlands is an exception due to the very different PSB model).

4.3. European audience market trends

In the digital era the number of TV channels is growing rapidly. By the end of 2009 there were more than 7200 TV-channels in Europe (EC 2010). Average television viewing per person in Europe has increased during last 15 years (Yearbook 2004, 2009).

As the number of commercial channels is growing faster than the number of new channels launched by public service broadcasters, the overall trend of PSB daily share of viewing is declining (Figure 6).

Big5 and Scandinavian countries have performed above the average. The PSB viewing trend in the Baltic countries has stabilized after rapid decline in the 1990s. It is important to underline that the starting position for PSB introduction in the Baltic countries was totally different than in Western Europe. In Western Europe public service television had long cultural and historical traditions (Syvertsen 2003). It had established its strong position during decades before commercial broadcasting was gradually allowed to enter the media field. Liberalization of western broadcasting market took place during many decades. The Baltic countries

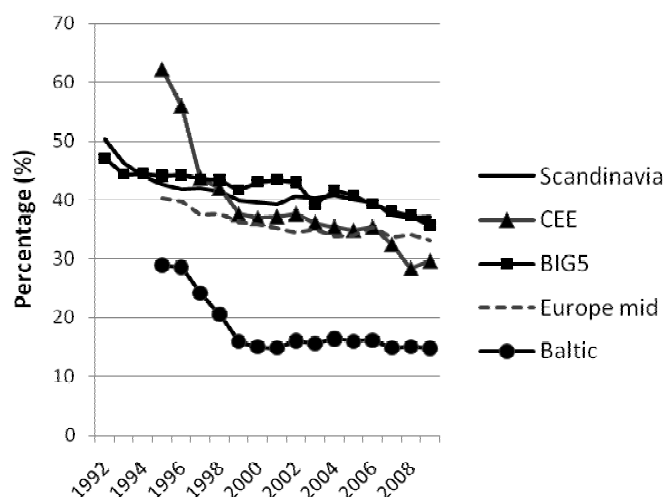


Figure 6. Average daily share of viewing European PSB TV channels. Sources: EBU SIS, TNS, EAO.

had to reform the old regime's state institution to PSBs during the first years of the 1990s when the dual broadcasting system was introduced. From the beginning, PSB actually evolved together with commercial stations.

5. The Baltic countries

By the IMF report Lithuania with the biggest population is ahead of other two in GDP absolute numbers. This fact might at first bring to mind that PSB in Lithuania has highest revenues also in absolute numbers. But looking into actual PSB revenues, the figures give a different picture (See 5.1. Challenge for the Baltic countries – *PSB financing*)

From almost the same starting point at the beginning of the 1990s, Estonia is slightly ahead of the other countries in GDP per capita (Figure 7).

In the same political and cultural circumstances it is logical to expect that the revenues of public service broadcasters are also more or less the same.

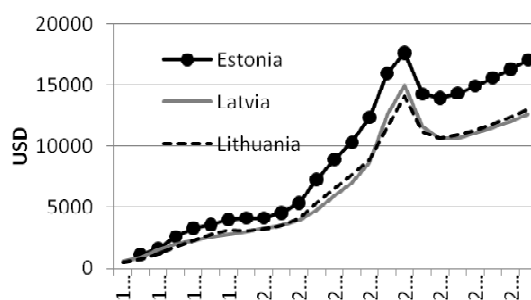


Figure 7. GDP per capita in Baltic states. 1992–2008 actual sums, starting from 2009 estimation. Source: IMF.

5.1. Challenge for the Baltic countries – *PSB financing*

In case of Estonian PSB, where sales of advertising time are prohibited, revenues of PSB are mainly coming from the state budget. In Latvia and Lithuania PSB revenues are coming partly from commercial income and partly from the state budget. Figure 8 shows that there is a big difference of state funding per capita in the Baltic countries. Despite the GDP growth, funding of Lithuanian Television and Lithuanian Radio have remained almost unchanged during last 14 years. It looks like the legitimization of PSB in Lithuania is not very strong. This allegation is supported by Pečilius (2009), who says that for almost 20 years there has been no political consensus about PSB funding schemes.

In terms of state funding per capita, Latvia has performed slightly better than Lithuania, but still compared to Estonian state funding it is almost four times lower. The difference cannot be explained only by the fact that the Latvian Tele-

vision and Radio have also commercial income. When the gap in funding absolute numbers is tried to (partly) explain by the differences in different GDP levels in the three countries, that is not justified. Differences in state funding are also revealed when we look into the ratio between PSB state funding per capita and GDP per capita (Figure 9).

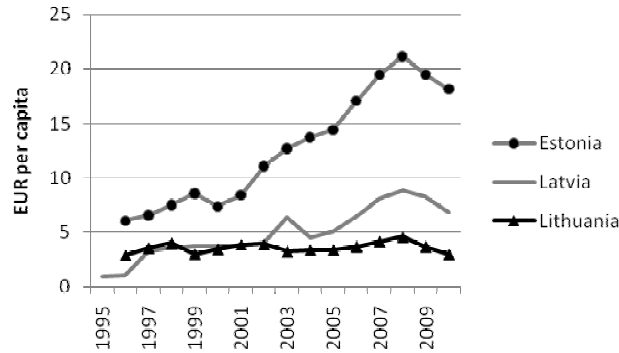


Figure 8. PSB funding per capita in Baltic. Sources: authors' calculations based on PSB annual reports, state budgets.

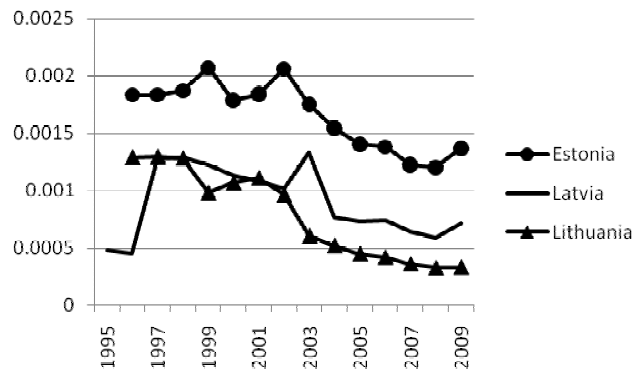


Figure 9. PSB state funding per capita as a percentage of GDP per capita in the Baltic countries 1995–2009. Source: authors' calculations.

The second conclusion is that all three countries have a negative trend in PSB state funding. Even in economically good times when the economy (and GDP) grew, relative funding on PSB in all countries decreased. A slight improvement in this ratio in 2009 unfortunately occurred because of a deep decline of GDP, and not because of any increase in PSB funding. In absolute numbers all Baltic PSBs faced a strong cut in state funding.

5.2. Baltic broadcasters' audience trends

At the beginning of the 1990s viewing time was shared between local state channel(s) and re-transmission of Central Television from Moscow. The PSB entry point to the market was most probably at high level. Unfortunately there are no comparable data to determine the exact share of viewing at these times. It can be assumed that in the first years of the 1990s state channels enjoyed high popularity because there was no serious competitions from the first commercial broadcasters just established on the frequencies left free after the end of re-transmission of Russian state channels. Comparable viewing data becomes available from the 1995/1996. By that time commercial sector had already been established. It successfully took away audiences from old state monopolies struggling with reforms towards PSB. The biggest decline took place during 1996–1998/1999; Lithuania had the most dramatic drop (Figure 10). PSBs in Latvia and Estonia in the last ten years underwent a slight decline. During last four years Lithuanian Television has managed to improve its position and its viewing level comes closer to the other countries. Compared to European BIG5 or Scandinavia, viewing of PSB in the Baltic countries is more than two times lower (Figure 6). At the same time the average viewing time in BIG5 and Scandinavian countries has declined during the last ten years in absolute numbers faster than in the Baltic countries. From 1999 to 2009 the daily share of viewing in BIG5 declined from 41.7% to 35.7% and Scandinavian PSB's average declined from 41.5% to 37.1%. If the same pace continues, and it is realistic to expect that the increasing competition in new media environment will continue to erode audiences from PSB's, it will still take half a century for the European TOP PSB countries to go down to the Baltic level. On the other hand, it is unrealistic to expect that PSB in the Baltic countries can turn the worldwide trend into opposite direction and instead of decline, PSB will in the long run be able to gain audience share. At best, the Baltic countries' PSB share of viewing can be considered as stable. At least with the financing levels and trends the Baltic countries have today.

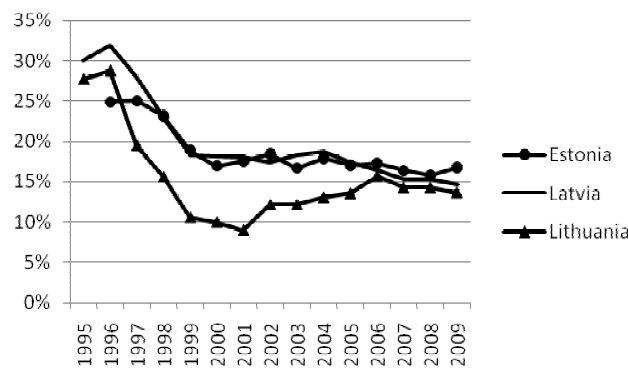


Figure 10. PSB daily share of viewing in Baltic 1995–2009.

Estonian and Latvian private commercial broadcasters on the average have improved their positions year by year. In Lithuania, as it was shown earlier, PSB has managed to take its position back and the share of viewing of Lithuanian commercial broadcasters has slightly declined during the last 10 years. Still, the position of commercial broadcasters in Lithuania is stronger than in the other two countries.

The average share of viewing trends in the Baltic countries is stabilized, there have been no big changes in the market, no remarkable big newcomers. New market entries are international niche channels with local language subtitles or a voiceover. These channels are available on pay-TV platforms (cable, satellite, terrestrial) and therefore they are not strong competitors to free channels, but they are still slightly increasing their share of viewing.

6. Estonian insight

6.1. TV-audiences' viewing trends

As already shown, in overall level Estonian television broadcasting market has been quite stable for the last 10 years. Despite the new media, television is still a strong medium and in Estonia people spend an average of 4 hours a day watching television. Most of the time is spent on viewing private commercial broadcasters. In absolute minutes there have been no big changes or deviations during the first decade of the 21st century between viewing time of public service broadcaster and commercial channels (Figure 11).

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
ETV	0:54	0:56	0:52	0:43	0:41	0:42	0:47	0:38	0:40	0:38	0:40	0:38	0:36	0:36
Private Channels	1:02	1:05	1:21	1:29	1:38	1:36	1:38	1:41	1:37	1:37	1:44	1:45	1:43	1:39

Figure 11. Average daily viewing time 1996–2009. Estonian Television vs commercial channels in total. Source: the authors' calculations, TNS Emor.

If we look more carefully into channels viewing time, there has been more 'turbulence' among private broadcasters. Two main commercial broadcasters have been fighting for the No 1 position. TV3 was market leader from 1999 to 2005. Kanal 2 has steadily increased its viewing time and bypassed TV3 in 2005. A private channel with the fastest growing audience was TV1, but it went bankrupt before the real breakthrough.

The trend on the market is that niche channels broadcast on pay-TV platforms are taking some viewing time away from private channels. Estonian Television's (ETV) viewing time has remained roughly on the same level during the last six years (Figure 12).

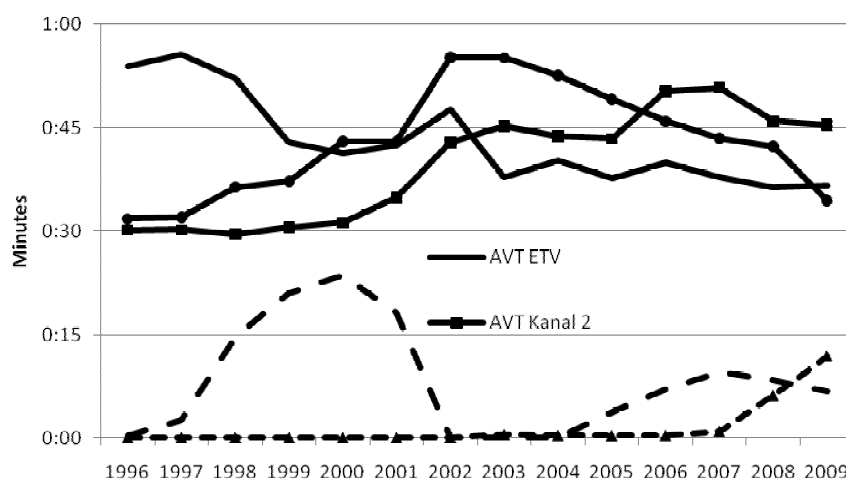


Figure 12. Average daily viewing time of Estonian television channels 1996–2009. Source: TNS Emor.

6.2. Estonian broadcasting legislation

The Broadcasting Act was passed in 1994 and it has been amended 33 times. The most important changes were made in 2000, 2002 and 2007 (RHS 2000a, 2000b, 2002, 2007). In 2000, the Act was amended to meet European Union's legislation. In 2002 commercial airtime sales were taken out of public service media and commercial market was left to two private broadcasters. In 2007, license fees of commercial broadcasters were abolished, Estonian Television and Radio merged into the Estonian Public Broadcasting, date for digital switch-over was set for July 1, 2010.

Based on changes in legal framework and economic conditions, the timeline of Estonian audio-visual landscape under Broadcasting Act introduced by Jõesaar (2009:60) can be developed further:

- 1994–1999 – foundation and institution of Estonian broadcasting legislation; competition for advertising market;
- 2000–2002 – implementation of EU Directive 97/36/EC (1997) (RHS 1999, 2000a) and amendment of the Broadcasting Act (RHS 2002), which recast Estonian broadcasting landscape;
- 2003–2007 – protection of the market and liberal interpretation of the Broadcasting Act as a guarantee towards private broadcasters' economic success;
- 2008 and onwards – expansion into digital era; a need for new channels and increase of program hours at the time of declining financial resources.

Their main characteristics in key criteria are described in Figure 13.

In conjunction with this classification data, economic conditions of private channels and financing of public-service broadcasting can be compared (Figure 14). During the period 1994–1999, the PSB funding percentage and financial results of

	1994–1999	2000–2001	2002–2007	2008 and further
Content regulation	weak	EU directive and additional local requirements		diminishing
Advertisement regulation	weak	EU requirements	<i>de facto</i> constant liberalization	liberalisation also <i>de jure</i>
PSB Programme	diverse	entertainment influence	diverse	
Private channels' programme	diverse	variety decreasing	entertaining	
Market	open	protectionism		open
TV standard	SECAM /PAL	PAL		MPEG4
Spectrum	UKW/AM FM VHF/UHF	FM VHF/UHF		FM MUX1-3
Private channels' economic indicators	loss	break even	profit	profit/loss

Figure 13. Four periods' key criteria of Estonian broadcasting landscape.

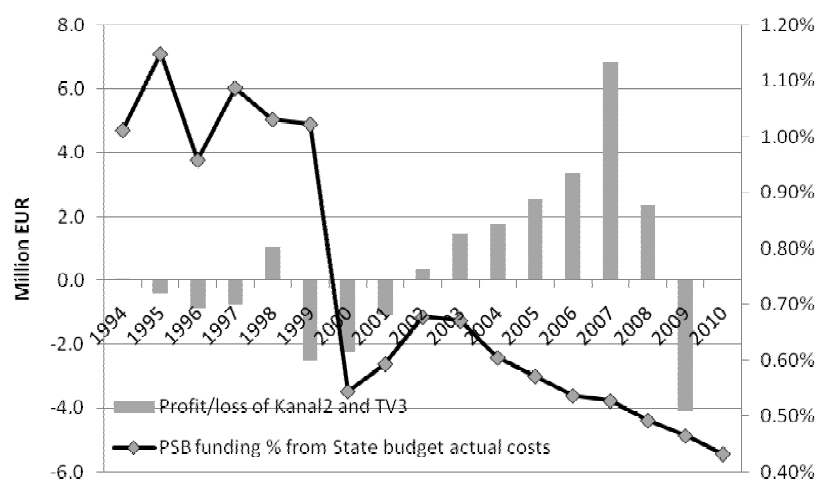


Figure 14. Profit/Loss of Kanal2 and TV3 versus PSB funding percentage from the state budget. Source: Ministry of Finance, Kanal2 and TV3 yearly reports, authors' calculations.

commercial broadcasters (CB) moved synchronously. In 1999–2000, during ETV crises, the movement was in different directions – CB's results improved, PSB funding declined. From year 2002, the still continuing decline of PSB funding started together with the rise of prosperity of CB. The recession of world economy in 2008–2009 also caused the revenue collapse of private broadcasters.

The financial result of private channels corresponds to the overall market growth and also indicates the level of competition on advertising market. Simultaneous movement of PSB financial indicators with commercial channels is

based on two reasons. In the first period until year 2002, Estonian Television was actively present on the advertising market and therefore it was expected that it will earn commercial revenues, and funding from the state budget can be reduced. 2002 is not a turning point of financial indicators presented above just because of coincidental economic situation, quite the opposite – economic indicators changed due to the media political terms changed by legal framework.

The main objective of the Broadcasting Act (RHS 1994), passed by the Parliament in June 1994, was to establish a foundation for a dual media system – co-existence of public service broadcasting and commercial sector.

Regarding the regulation of private sector, two objectives of the legislator clearly stand out in the Act. First, the wish to protect the broadcasting landscape from foreign capital. This limitation was directly in conflict with the European Union free market principles, but the danger of foreign capital taking control over media freedom was stronger than recommendations from the European media experts to secure free movement of capital. The second goal was to avoid media concentration. This target was in accordance with EU guidance. Neither objective was achieved.

In the first half of the 1990s, the transforming of an over-staffed Soviet state propaganda institution into a public service broadcaster faced severe criticism and competition from the emerging private sector. Also, competition inside the private sector took harsh forms, still remembered as TV-wars (Shein 2005:190). The limited market forced financially weak companies to merge or find help from foreign capital. Despite strong efforts, none of the Estonian private broadcasters remained in the hands of founders and were sold to Western media groups or, in worst cases, went bankrupt. In 1995 the Swedish Modern Times Group AB took over Reklaami-television AS and Eesti Video AS. In the same year the Norwegian media group Schibsted ASA became shareholder of Kanal2 (Jõesaar 2005). Major bankrupts were Tipp TV in 1996, TV1 in 2001, Kalev Sport and MTV Estonia in 2009).

The limited advertising market caused tensions between private broadcasters and PSB Eesti Television. To solve this market conflict, the idea was that PSB should leave the advertising market and the secure model for PSB financing must be introduced by the Broadcasting Act. Introduction of license fee or PSB financing based on fixed percentage from the state budget were the two main ideas discussed. Politicians abandoned license fee idea because the introduction of a new tax (public license fee is a tax) seemed to be unpopular. The second idea was strongly criticized among others by the Ministry of Finance, because fixed funding percentage did not leave Parliament the freedom to decide over the state budget. Political consensus was not reached and regulation of advertising sales on the state level failed.

The Estonian Television and private broadcasters tried to solve this situation by self-regulatory actions. At the end of 1997 ETV and three commercial broadcasters (TV1, Kanal2 and TV3) reached an agreement that from 1 January 1998 ETV will not sell advertisement time and private channels will pay compensation to ETV. The substance of these agreements was to leave the commercial market

totally to the private sector and ETV should have focused on serving public interests only. This model worked for a year and a half. The agreement did not last longer, because fundamental challenges were not solved. The number of the actors and financial resources available remained the same. PSB funding from the state budget and the size of TV-advertising market had the same limitations and there were still four broadcasters. Limiting the number of commercial players to three did not provide *summa summarum* extra resources. With the aim to produce more high-quality local programs, the fourth actor – ETV – increased production costs much more than the actual financing allowed. The state funding was insufficient and ETV tried to cover the budget deficit by entering into the commercial market again. Director General of ETV made two miscalculations. First the valuation of the actual size and development trends of the advertising market was wrong. The second mistake was the belief that the government will help PSB with allocation of extra funding. These severe management mistakes pushed ETV into financial crisis with debts close to 80 million EEK.

Serious challenges faced broadcasting regulators and legislators: to bring ETV out of the serious crisis and set up new legal framework which could secure balanced development of broadcasting sector as a whole. Legitimation of PSB existence was under question. In these circumstances, it was difficult to convince government to secure sufficient and stable funding for public service broadcasting (Jõesaar 2005).

At the same time TV3 was the only private channel which was profitable by the turn of the millennium. It was vital for Kanal2's owner, the Norwegian media concern Schibsted, to quickly improve the economic results of Kanal2, which had generated a loss for years. Thus, Mart Kadastik, the director of Eesti Meedia AS, participated in the preparation of the Broadcasting Act's amendment with strong lobby-work.

After tense negotiations between private broadcasters, the public service broadcaster and the Ministry of Culture, a consensus about principal changes in Broadcasting Act was agreed. Amendment of the Broadcasting Law in 2001 introduced a new paradigm for broadcasting landscape. Advertising was taken out of public-service broadcasting and the number of nationwide commercial broadcasting licenses was limited to two. 10 million EEK yearly license fee for commercial broadcasters was set. The control over TV advertising market was legally left totally under duopoly – to Kanal2 (owned by Schibsted) and TV3 (owned by Modern Times Group). Legal and financial positions of the two survived private broadcasters were secured. The Estonian broadcasting landscape was closed for newcomers from 2001 until the end of 2007. From the EU free market ideology perspective this was protectionism. At the same time commercial players left on the market had minimum obligations and this can be considered as a liberal approach. The main results of the changes made in the Broadcasting Act were that new conditions improved profitability for commercial broadcasters (Jõesaar 2009) and public-service broadcasting program was exempted from the pressure resultant of commercial airtime sales (Shein 2005:292). With mainly entertainment content

commercial broadcasters gained profit from the duopoly of the advertising market. Public service broadcasting was redeemed from the commercial pressure and focused on the increase of high-quality programming.

7. The position, financing and governance of public-service broadcasting

In Estonia the financing of the public service broadcasting takes place only after the Parliament's decision. State funding is the part of state budget which is set for fulfilling public service remit set by the Estonian Public Broadcasting Act. The Estonian Public Broadcasting (ERR) does not sell advertisement. There is no license fee for citizens. This kind of financing mechanism has guaranteed ERR programs' independence from the pressure of advertisers and should, ideally, guarantee the sufficient funding needed for serving public remit. However, PSB funding share from the state budget has decreased from 1.15% in 1995 to 0.43% in 2010 (Figure 15).

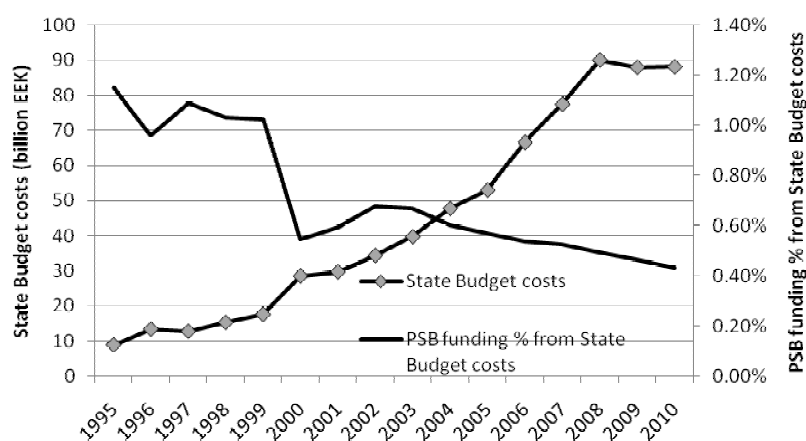


Figure 15. PSB funding as a share of state budget costs vs state budget costs. Source: Ministry of Finance, authors' calculations

The Estonian Public Broadcasting has one of the lowest funding per capita among EU member states. Political forces prefer to finance the areas which bring them direct votes during the elections. There have been attempts to form the PSB's governing body – a Broadcasting Council – as a clearly political tool for the government. For example in 2007 the Ministry of Justice presented a draft that council members should be pointed by political parties in correlation of seats in the Parliament. During the Parliament discussions this proposal was abandoned. Finally, a model of politically balanced council with four independent experts plus Parliament members (one from each Parliament fraction) was written into the

Estonian Public Broadcasting Act. The non-political governing during the last decade has guaranteed the editorial independence and the high institutional credibility among the audience (Lauristin 2009).

8. Towards the digital era

Two legal steps towards the digital era were made in 2007–2008. The first step was introduction of the Estonian Public Broadcasting Act, which merged the Estonian Television and Estonian Radio into one legal entity (EPBA 2007). The reason for the merger was to secure the future of public service media. Instead of two legal identities competing against each other one strong(er) public service media company, which can face challenges of new technologies, was established.

The second legal step was a change in the existing Broadcasting Act which abolished license fees for commercial broadcasters (RHS 2008), the state gave up 4.87 million EUR for the benefit of the private channels. The aim of this was to motivate private broadcasters to join digital terrestrial transmission platform. This kind of media political decision strengthened the positions of the private channels even more. At the same time it is important to note that for years the state has not guaranteed sufficient financing for the development of the public service broadcasting. “Joint development agenda of the Estonian Television and the Estonian Radio for 2006–2008” approved by the Parliament in 2005 defined and set the necessary financing for the development of the public service broadcasting in 2005–2008. Year after year, the allocation of 3.2 million EUR necessary for the opening of the second channel of Estonian Television has been postponed.

Today less than 30% of the digital frequency resources allocated to Estonia are used by Estonian channels. Despite limited financing, ERR is the leading force in digitalization process and especially in introducing new media services to the Estonian market. Through the ERR portal www.err.ee, live video streaming and video-on-demand services and podcasts of aired TV and radio shows are available for public free of charge. The digitalization of archives enables to open them for broad use by the public. The media services offered by ERR (incl. discussion forums necessary for the development of civil society) have great value in informing citizens and also in enabling them to be more active in society. ERR has started to transform itself from being traditional public-service broadcasting into the new paradigm – the public service media. Instead of encouraging private media to foster public debate in the public sphere, the government meets the interests of media owners and through legislative framework is shaping the media towards economic success, ending up with a bias to entertainment.

Since 2000 there has been a strong successful influence from the private sector to shape media policy to meet commercial industry’s needs. The same is relevant also for the digitalization process. Amendment 2008 is a result of two commercial broadcasters’ successful lobby among coalition politicians. Even if the overall impact of this Amendment might have a positive economic result towards private

broadcasters, the process itself cannot be considered as a good example how media policy should be made. The process was not transparent, public debate was avoided, interests of public-service broadcaster were not protected, effect to public interest was not valuated.

9. Conclusions

The current research compared PSB funding, national GDP levels and PSB audience shares in Europe. It shows that there is a correlation between these categories. But not only that. There are two important criteria, which have a major impact on the PSB positions strength:

- a) Historical tradition. In old democracies PSB is stronger than in new ones.
- b) Size of the country. Due to the economy of scale in small countries PSBs need to have higher funding level per capita then in a large countries.

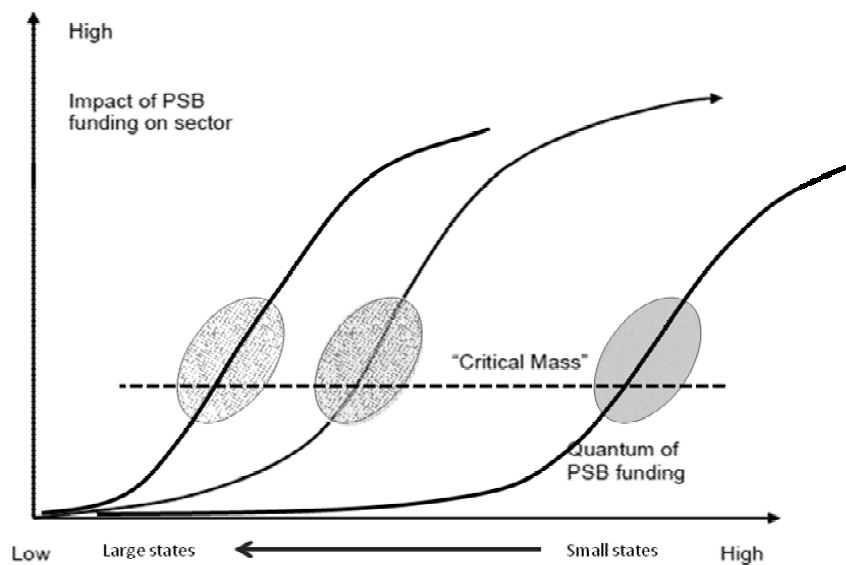


Figure 16. Dependency country size and PSB funding needed for Critical Mass. Authors adaption from Unitec (2005:173).

Research reveals that even the last decade PSBs all over Europe show a slight decline in audience market share, the position of PSB in BIG5 (Italy, France, Germany, Spain and UK) Scandinavian countries (Denmark, Finland and Norway) is strong. Critical Mass has definitely been achieved. The future of PSB in some

CEE countries (including the Baltic countries) is more questionable. Poland and Croatia perform above the average and in these countries the ‘health of PSB must be considered very good, at least in case the strength is measured by the share of viewing. Slovakia, Hungary and all three Baltic countries are clearly lagging behind.

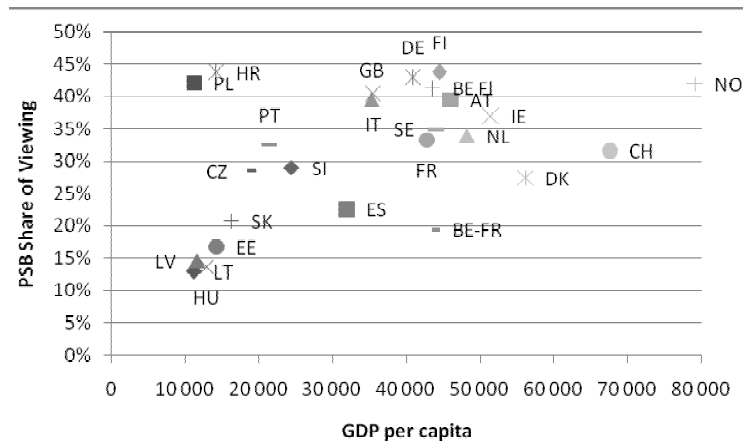


Figure 17. PSB share of viewing and GDP in Europe 2009. Source: authors' calculations, EBU, IMF.

There are no clear criteria how big or small audience market share should be considered critical or from what level marginalization of PSB is a real threat. It is encouraging that with ca 15% daily viewing share, Estonian citizens have not lost faith in the public service broadcasting. The reliability of public service broadcasting is stable at a high level and it is still remarkably important for the society (Kalmus et al. 2004).

Despite long lasting under-financing (especially compared with per capita funding in Scandinavian countries), public service broadcasting has still kept its leading role as platform for public debate and reliable news source.

At the same time it might be a big challenge to all Baltic countries to keep the existing position of PSBs. Overall liberalization and the market-driven European Union media policy are working in favour of commercial broadcasters. It is unrealistic to expect that liberal politicians in power will agree to increase PSB funding from state budgets in the next five years to a level, which will help raise audience market share from ca 15% today up to European 30%. Theoretically, of course, there is a possibility that some populist party might take over the power and through increased funding attempt to turn PSB to party propaganda supporters, but because of resistance from professional journalists working in PSB this goal is most likely unachievable.

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