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## **Tweaking TV ad rules a new way to compete**

**By IVAN PNG  
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ON JAN 1, China's first comprehensive regulations governing radio and television advertising took effect. Issued by the State Administration of Radio, Film and Television (Sarft), Provisional Measure No. 17 generally requires advertising to be consistent with socialist principles and prohibits misleading advertising.

The new regulations:

- Limit advertising to 20 per cent of the day's broadcast hours and 15 per cent of the prime 11am-1pm and 7-9pm slots
- Limit advertisements for alcoholic beverages to 12 per day, including two during the prime 7-9pm slot
- Prohibit local broadcasters from splicing their own advertisements into television programmes

What will these new regulations accomplish? How will they affect China's 25.3 billion yuan (\$5.3 billion) radio and TV advertising market? Will they advance the public interest?

According to media researcher CVSC-TNS Research, the new regulations would curtail prime-time advertising, and that of alcoholic beverages in particular. The 154 major television channels must cut prime-time advertising from 18 per cent to 15 per cent of broadcast hours, and advertisements of alcoholic beverages from 17 to 12 on a daily basis, and from three to two in the prime 7-9 pm slot.

Social policy might justify the limits on advertising of alcoholic beverages. However, if such advertising causes social harm, this begs the question: Why allow it at all? Why allow 12 advertisements per day, including two in prime time?

If indeed viewers were turned off by 'too much' advertising, the local television stations would be the first to worry. After all, every viewer who switches to another channel or switches off altogether is a viewer that the station loses, and one less pair of eyeballs for its advertisers. Clearly, there is no need for the central government to protect viewers from too much advertising.

Could the purpose of the new regulation be economic? China Central Television (CCTV) relies on local over-the-air and cable broadcasters to relay national programmes and advertising to the provinces. Local broadcasters, however, increase their revenues by inserting their own advertisements into national programming. Indeed, according to CVSC-TNS Research, local stations replace over 90 per cent of CCTV's advertisements during prime time.

The cutback in advertising time (in conjunction with the ban against substitution of advertisements) will effectively curb local television stations from competing with CCTV at

prime time. The 7-9pm segment accounts for up to 70 per cent of China's radio and television advertising market.

Like any other measure to restrict competition, the new advertising limits are likely to lead to higher ad prices.

Following the announcement of the new regulation, Sichuan provincial television raised ad rates by 30 per cent. But the biggest beneficiary would be CCTV: It would not only be able to raise rates, but also enjoy greater demand as provincial competitors are cut off.

What about the specific limits on the advertising of alcoholic beverages? China's beer market is one of the world's largest, but is relatively fragmented as compared with Europe, Japan and North America. In a wave of consolidation, big domestic and foreign brewers are rapidly acquiring local breweries.

The limits on beer advertising will drive up the costs of entering China's beer market on a national scale. This will help the established national brewers fend off smaller competitors and foreign entrants.

So, the new regulation is good news for large, established national brewers.

In China's transition to a market economy, its big businesses - both state-owned enterprises and private businesses - are learning a new lesson: There are many ways to compete, one of which is to enlist the help of regulators.

It is, however, too early to draw the curtain on competition in broadcast advertising.

Local governments are responsible for enforcing various aspects of the new regulations. Given that they have an interest in the profits of local broadcasters that is both direct (through ownership) and indirect (through local tax), competition may well persist.

• **The writer is Kwan Im Thong Hood Cho Temple Professor and professor of information systems and business policy at the National University of Singapore**

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