

Fair game?

Tackling monopoly in sports
broadcasting

Julian Le Grand and Bill New

DEMOS

DEMOS

Open access. Some rights reserved.

As the publisher of this work, Demos has an open access policy which enables anyone to access our content electronically without charge.

We want to encourage the circulation of our work as widely as possible without affecting the ownership of the copyright, which remains with the copyright holder.

Users are welcome to download, save, perform or distribute this work electronically or in any other format, including in foreign language translation without written permission subject to the conditions set out in the Demos open access licence which you can read [here](#).

Please read and consider the full licence. The following are some of the conditions imposed by the licence:

- Demos and the author(s) are credited;
- The Demos website address (www.demos.co.uk) is published together with a copy of this policy statement in a prominent position;
- The text is not altered and is used in full (the use of extracts under existing fair usage rights is not affected by this condition);
- The work is not resold;
- A copy of the work or link to its use online is sent to the address below for our archive.

By downloading publications, you are confirming that you have read and accepted the terms of the Demos open access licence.

Copyright Department
Demos
Elizabeth House
39 York Road
London SE1 7NQ
United Kingdom

copyright@demos.co.uk

You are welcome to ask for permission to use this work for purposes other than those covered by the Demos open access licence.



Demos gratefully acknowledges the work of Lawrence Lessig and Creative Commons which inspired our approach to copyright. The Demos circulation licence is adapted from the 'attribution/no derivatives/non-commercial' version of the Creative Commons licence.

To find out more about Creative Commons licences go to www.creativecommons.org

Demos

Demos is an independent think-tank established in 1993, committed to radical thinking on the long-term problems facing the UK and other advanced industrial societies. It publishes books and a regular journal, and undertakes substantial empirical and policy-oriented research projects.

Julian Le Grand is a professor in the Department of Social Policy and Administration at the London School of Economics.

Bill New is a research student in the Department of Social Policy and Administration at the London School of Economics.

For further information and subscription details please write to:

Demos
9 Bridewell Place
London EC4V 6AP

Telephone: 0171 353 4479

Facsimile: 0171 353 4481

email: mail@demos.co.uk

Demos
9 Bridewell Place
London EC4V 6AP

Telephone: 0171 353 4479
Facsimile: 0171 353 4481
email: mail@demos.co.uk

© Demos
January 1998

All rights reserved

Contents

Summary	vi
Introduction	1
The Government's policy – the 'crown jewels'	4
The nature of significant sporting events: natural monopolies	6
Why the Government should intervene	9
Why is this a problem now?	12
Policy options	15
Conclusion	21
References	22
Notes	23

Summary

- Sporting events and championships are natural monopolies. That is, it is not possible for new ‘firms’ to enter the industry and supply an identical ‘product’, such as a duplicate FA Cup competition.
- This applies to a far wider range of sports, and sporting championships, than those currently specified in the ‘crown jewels’ list.
- In addition, broadcasters who gain rights to these events are monopoly suppliers to their viewers.
- Monopolies raise prices to levels which are not economically efficient and exploit the consumer.
- This was not an issue in the past because the BBC was able to act as the sole buyer of events, countering the monopoly power of the suppliers; furthermore, political control was exercised over the licence fee – the ‘price’ charged to the consumer.
- The emergence of satellite television has provoked a highly competitive price war for sporting rights, with monopoly pricing passed on to the consumer via subscription charges.
- We recommend a new price regulation body which would control the pricing activity of subscription broadcasters and the list of ‘crown jewel’ events which must be available to free-to-air broadcasters.

Introduction

The availability of sporting events on the broadcast media has become a focus of national attention. This is in part a result of BSkyB satellite television's aggressive bids for the rights to national sporting events and their similarly aggressive pricing of the sports channels which broadcast them. In recent years, BSkyB has gained exclusive rights to an increasing number of sporting events. These now include live English Premier League football, many England international football and rugby matches, the Ryder Cup golf competition and the cricket World Cup. Currently, only a small proportion of the population, about 10 per cent, subscribe to cable or satellite broadcasts, and fewer than this specifically to the sports channels.

The debate over these developments has, thus far, fallen into two camps. The sporting authorities and the satellite television industry have argued that the previous system – when the BBC was the sole buyer – was paternalistic and did not reflect the latent demand for these sporting events. People have demonstrated their willingness to pay much higher prices for these events than previously, in return for more extensive coverage and an allegedly superior product. Consequently, the industry now has money to spend on attracting star players, developing young sportsmen and sportswomen, and renovating the capital stock – particularly noticeable in football where satellite television has had the greatest impact. On the other hand, critics of these developments, including the BBC, have argued that a vast proportion of the population

is now deprived of watching sporting contests of national significance. The nation suffers by the restriction placed on people being able to join together to share in a national event, thus damaging social cohesion.

However, we will argue that both advocates and critics have ignored a crucial characteristic of sporting events or championships and of those who supply them to the broadcasters.¹ Sporting contests are monopolies. Furthermore, they are monopolies of a particularly pure kind – ‘natural monopolies’ – which cannot be delivered under competitive market conditions without fundamentally altering the nature of the ‘product’. Monopoly supply is therefore necessary for sporting events but this leaves the sports fan open to serious exploitation.

In summary:

- Monopoly suppliers restrict the supply and raise the price of a product to maximise their profits.
- In sport, where the ‘quantity’ of a product is broadly fixed, sporting authorities will raise the price as far as the market will bear – that is, the maximum bid by broadcasters for exclusive rights.
- BSkyB television has won a significant number of these bids. The consumer has no choice but either pay the monopoly price or go without – he or she is exploited.
- Millions of people are denied the opportunity of paying a fair price to view sport. The level of enjoyment to be derived from these events is massively reduced.

For example, the 1996 European football championships semi-final between England and Germany was watched by 23.8 million people on free-to-air television, compared with 3.8 million people who watched the second England v. Italy world cup qualifier in 1997.² This latter figure was the highest ever recorded figure for in-home viewing, according to Sky’s own publicity material. This clearly indicates that other sporting events previously available on free-to-air television but now exclusively with BSkyB (such as rugby internationals and golf’s Ryder Cup) have also suffered large reductions in the numbers watching.³

At the same time, the charges to the consumer have risen dramatically. The current television license fee is £91.50, the effective charge for sporting events broadcast by the BBC. The equivalent charge for watching all the available subscription sports channels supplied by a typical cable provider is approximately £360 per year.⁴ This is, of course, *in addition* to the license fee. Furthermore, increasing use is being made of pay-per-view for certain events such as boxing bouts: a typical event is charged at between £10 and £15. All this has meant that the amount of money finding its way to the sporting providers has also massively increased: from £44 million for a four year contract for English First Division football in 1988 to £670 million for a similar length contract for the English Premier League in 1996.⁵ However, this increase has been extracted from the consumer by monopoly charging, while at the same time greatly reducing the numbers who watch.

We believe that this situation requires government intervention – a new office for the regulation of television sports pricing. This agency would not deny BSkyB and other subscription broadcasters from gaining rights but would restrict their pricing to more economically efficient levels. Before elaborating our arguments, a brief review of current government policy is necessary.

The Government's policy – the 'crown jewels'

Concern that certain events of 'national significance', such as Wimbledon tennis or home cricket tests, would fall to the satellite broadcasters (category B broadcasters) led the Government to act by listing the so-called 'crown jewels'. These are sporting events which must be available for broadcast on free-to-air television (category A broadcasters). The 'crown jewels' are specified by the Secretary of State under the Broadcasting Act 1996 and can only be changed after due consultation. A review of the contents of this list has now been instituted by the Department of Culture, Media and Sport. Currently, they include:⁶

- FIFA World Cup finals
- the Olympic Games
- FA Cup final
- Scottish FA Cup final (only applies to Scotland)
- Wimbledon Tennis Tournament (finals weekend only)
- Cricket Test matches involving England
- the Derby
- the Grand National.

The principles that underlie the selection of these topics rely heavily on the notion of 'national interest':

the intellectual defence for having the 'crown jewels' list of events is that these are things which are of relevance to the nation as a whole, where depriving a large swathe of the nation access would deprive them of part of our sense of national identity. (Chris Smith, quoted in *The Guardian*, 1 September 1997.)

Specifically, the criteria cited in the discussion document that initiated the Government's review of the policy are the following:⁷

- the event and its outcome have a special national resonance, not simply significance to those who ordinarily follow the sport concerned
- it is a pre-eminent and popular event giving it particular potential for encouraging participation in the sport concerned
- it is an event which serves to unite the nation: a shared point in the national calendar
- it involves the national team in the sport concerned in a major international tournament.

The feature of sporting events that relates most closely to the 'national significance' noted by Chris Smith, and by at least three of these criteria, concerns what economists call 'external' benefits – that is, the sporting event concerned contributes to welfare beyond that enjoyed by an individual watching the event. These events, such as the Wimbledon tennis championships or the Grand National, may produce a sense of national togetherness. When the whole nation is encouraged to watch an event, social cohesiveness may be enhanced. People who would otherwise not watch can now do so as part of a 'national family', thereby strengthening social bonds and bolstering national unity.

Although this argument has some merit, it ignores a crucial feature of these kinds of sporting events; consequently, the policy is inadequate, as we shall demonstrate.

The nature of significant sporting events: natural monopolies

The most important feature of sporting events is that they are natural monopolies. This economic term means simply that there can only be a sole supplier of a product and that this is a direct result of the very nature of the product. There is little or no scope for introducing competition into its supply. In the past, industries which were said to be natural monopolies included the gas, water and telecommunication utilities. Here it was thought that competition was simply impractical: the cost of duplicating pipes and wires to every home would be prohibitively expensive. With developing technology, however, it has been possible to introduce a degree of competition into these industries, particularly telecommunications. More enduring examples of natural monopolies are sites of great natural beauty or historic interest. Here, the 'product' cannot be duplicated, either because it is unique (the Grand Canyon) or because its historic significance has a 'once and only' character (there is only one place where the Battle of Hastings was fought). Such sites are typically controlled in some way by government.

It has not been recognised generally that sporting events also qualify as natural monopolies. Any sporting contest seeks to establish a winner: the best individual or team at a particular sport or game. These winners exist at a particular time and in a particular geographical area. Within these parameters of time and place there cannot be two 'winners' – this would literally be a nonsense. However, in other geographical areas, similar 'winners' emerge and the desire to see who

is the ultimate 'champion' develops, particularly within a nation state but increasingly at the world level. But in any given geographical area (and within a certain time period, most commonly a year), the possibility of having two winners of the same sporting competition is meaningless.

Take the English (association) football league as an example. The contest here is to establish the best football team in England over one year. There can only be one 'best' team. Therefore, the 'industry' which organises the competition to establish who this might be – currently the Premier League who run the top division of twenty teams – is a natural monopoly supplier of this 'product' (the competition to establish the champions). If a competitor organisation wished to enter this market and set up an alternative competition, this would result in one of two outcomes. First, it could run alongside the existing competition, thus diluting the concept of the 'winner'. The likely result of this is that the public would consider that the product they wished to buy had effectively been withdrawn, resulting in pressure to re-establish a unified competition. The second possibility is that the new organisation replaces the old one as a kind of business takeover – this is in fact not dissimilar to the process that led to the secession of the old first division teams to form the Premier League in 1991.

It has been suggested that, for professional team sports who engage in long-term 'league' contests of this kind, a form of 'competition' in supply *is* possible (Sloane, 1997). So, in the case of Premier League football, the individual clubs could 'compete', not just to win the championship but also in the supply of the 'product' – this being the individual contests that in aggregate make up the league championship. Currently, the Premier League acts as a 'cartel', preventing such competition in the supply of rights to broadcasters.

However, individual sporting contests – in this case the football matches making up the overall competition – are also monopolies. Fans of these events – the consumers – are not indifferent to the clubs they wish to watch because they will generally hold a strong allegiance to a particular team. They do not shop around for a suitable game. Even where there is no strong allegiance, key matches or contests,

or those involving the most skilled competitors, will continue to exert monopoly power. Football fans will either be tied to their football club by tribal allegiance or they will only be interested in watching the 'top of the table' clash. An example of this lower tier of monopoly power is the actions of the English Rugby Football Union (RFU) during 1996. With BSkyB television, the English RFU negotiated exclusive rights to its games at Twickenham within the Five Nations tournament, for £87.5 million (Sloane, 1997). It was able to do this because the English RFU is a monopoly supplier of rugby internationals of interest to the vast majority of rugby fans in England. It is also worth noting, however, that it can only exert this monopoly power if it remains within the sporting contest of interest, in this case the Five Nations championship. It therefore relies to an extent on the other competitors (nations) agreeing to the exchange, something which almost resulted in deadlock during 1996 when this deal was being negotiated.

Although it is intellectually meaningless to have two winners, this does not prevent new competitor firms in some sporting 'markets' from trying to enter the industry to provide more of the same product. For example, world boxing championship bouts have long been the source of huge riches for the fighters, their managers and agents. This has occurred to such an extent that competitive entry into the market for these champions has taken place. There are now four boxing organisations, each proclaiming a 'world champion' in various weight categories in an attempt to gain some of the profits enjoyed by any one single organisation. This has had the effect of diluting the value of each world champion, no longer backed by a monopoly supplier. Attempts to arrange unification bouts – where 'world champions' in each organisation fight each other – are hindered by endless haggling between the participants, usually ending without agreement. The consumer suffers from this competition, since he or she is offered a sub-standard product (rather than a 'real' champion) and the numerous championship organisations are still able to wield excessive market power. It is important from this perspective that any government policy should *retain* the monopoly element of sporting fixtures.⁸

Why the Government should intervene

Why should government intervene in the activities of monopoly industries? In economic terms, the problem is that such industries tend to restrict the supply of a good and raise its price to levels that are exploitative of consumers and are not economically efficient. Thus, because a monopolist has a dominance over the market – unlike firms operating in competitive markets, it does not have to take the price as given – it can alter the price of the good by changing the quantity provided. It will seek to set a price which maximises its profits, much as any other firm would do. However, for a monopolist, this will be at a level where it is earning greater profits than are necessary to retain investment of resources in the production of the good. Its position as a monopolist prevents other firms from competing these profits away.

Furthermore, consumers may be willing to pay more than the cost of producing an extra unit of the good. This, however, does not suit the monopolist because its profits would be reduced (the increase in its costs from producing the extra unit is greater than the increase in its revenue). But as long as the welfare gained by the extra consumer outweighs the profit lost by the monopolist in producing that extra unit, there is a welfare loss.⁹ In simple terms, we, the consumers, are not getting as much of the product as we would like, given our preferences and the cost of the good's production. The monopolist 'exploits' its powerful position vis-à-vis the consumer.

How does this theoretical discussion of welfare loss in monopolistic industries relate to the situation of sporting events? First we must distinguish two types of monopolistic relationship in the production of sporting events for consumption. The first is between the supplier – the governing organisation or individual club or team – and the individual supporter who might actually *attend* an event. We are not here concerned with this relationship, which does not involve the broadcast media.¹⁰

The second monopolistic production process concerns the relationships between the supplier, the broadcasters and their viewers. This has two stages. First, the supplier of the sporting contest or individual team – for example, football's Premier League, or the English Rugby Football Union – acts as a monopoly supplier to the broadcasters. At this stage of the production process, some sporting providers have scope for limiting the quantity of the product: the Premier League may reduce the number of teams taking part, for example. In general, however, sports suppliers wish to develop the quality and quantity of their product by, for example, investing in facilities, increasing salaries or developing a youth policy. Furthermore, there is only one product to be negotiated at any one time: that is, the rights to cover a single event (or sequence of events which lead to a single champion). Rather than restrict quantity or quality, then, the suppliers' strategy is to auction these rights to the broadcaster who bids the highest.¹¹ In terms of the analysis above, the price for a given level of production is raised as far as the market will bear. The capital available to the new satellite broadcasters has allowed them to bid up these prices to very high levels.

In the second stage of the production process, the broadcaster acts as monopoly supplier to the individual consumer. At this stage, the 'product' might become a sports channel, or channels, which can be sold on to a variable number of consumers, at least for subscription television broadcasters. These broadcasters are able to vary the price charged to the individual consumer so as to maximise profits. The price they settle on will, according to economic theory, be higher than the economically efficient level – and therefore the 'quantity' of broadcast units supplied to individual subscribers/viewers will be lower.

There is thus a welfare loss when compared to the production which would result from a theoretically perfect market. However, as we have seen, competition is impossible without irrevocably altering the nature of the product and diminishing its appeal.

Why is this a problem now?

It could be argued that this situation has existed for as long as television has covered sporting events. They have always been monopolies; why are we only now deciding that government needs to intervene?

The answer lies in the development of the market for broadcasting. In the early days of television, the BBC was the only supplier of programming. To the consumer, this was a monopoly relationship with the Government controlling the price (as it does now) via the licence fee. However, for the sporting authorities who controlled the events which were to be broadcast, the BBC was the only *buyer*, what economists call a monopsonist. Thus, the sporting providers were unable to use their market power to bid up the price because they were only able to engage in an auction with one buyer. If they tried to charge too outrageous a price, the BBC could threaten them with refusing to broadcast the event at all – clearly disastrous for the image and popularity of the sport in question. The BBC's monopsony power acted as a counterweight to the monopoly power of the sports authorities and successfully avoided monopoly pricing.

This situation was not significantly changed by the advent of ITV for two reasons. First, traditional and established ways of operating persuaded many in the sporting authorities that it would be detrimental to their sport's image if they auctioned off the sport to ITV, who were, in these matters, an unknown quantity. It was better to stick with a trusted partner. Nevertheless, gradually ITV did start to cover some

events, notably association football. But it was not in either the BBC's or ITV's interests to compete in an auction for the rights; and it is likely that to an extent they operated as a form of cartel, tacitly agreeing not to damage each other's financial position. They agreed, for example, to jointly televise the FA Cup final for many years. This 'duopsony', alongside the strong element of tradition, continued to restrain the potential for monopoly pricing.¹²

This situation was radically altered by the arrival of the satellite broadcasters with their vast financial reserves and highly competitive instincts. Their actions have effectively ended the duopsony and ITV itself has become a vigorous participant in the competitive auction for rights, wresting control of Formula 1 motor racing, some snooker and athletics events, and some European football competition. Channels 4 and 5 have also bid for a limited number of events with some effectiveness, despite with much smaller financial resources.

It should be noted that the old system was not perfect and almost certainly led to the *underpricing* of many events. That is, monopsony/duopsony buying of sporting rights resulted in low prices to the consumer/viewer but also in little finance for the sports themselves. The price paid by the BBC for many of these events was probably well *below* what consumers would have been willing to pay, leading to a lack of investment in the sports which an efficient market would have promoted. There is some evidence to support this contention in the revealed willingness of viewers to pay the vastly increased prices for the Sky sports channels noted above. This underpricing continued with the advent of ITV. In fact, it was in ITV's interests to maintain it; for, as long as it could cooperate with the BBC in keeping expenditure for rights low, it could enjoy the large audiences and advertising revenue generated without having to pass on this income to the sports providers themselves.

The satellite subscription payment system, coupled with the competitive auction for rights, led to consumers' willingness to pay to be more directly related to the production of the sport. This resulted, for example, in the increased ability of English clubs to compete in international football markets for the best quality players, arguably leading to an

improvement in the quality of the product for the consumer. This did not only apply to the sporting providers. The satellite broadcasters, too, responded to the free market among consumers, reacting to their demands for more extensive coverage of sporting events which no longer had to share air-time with other programming. BSkyB now has three dedicated sports channels in response to consumers' demands and willingness to pay.

These points should not be exaggerated. Ultimately football players, for example, are monopoly suppliers of their own talents and increased spending can simply result in inflated players' wages with no increase in quality. However, these comments are made as a warning against simply returning to the *status quo ante*. A balance must be struck between, on the one hand, monopoly power raising prices and restricting supply and, on the other, stifling government regulation which prevents efficient market signals from operating to indicate where investment and product development is demanded by the consumer.

Policy options

One response to the preceding analysis is to do nothing, the conclusion of a recent investigation into the economics of sports regulation (Cameron, 1997). Although ‘there is an inherent tendency to monopoly in broadcasting in the future’, the author concludes that ‘there seems little justification for governmental interference with sports broadcasting’. We believe this conclusion to be mistaken, principally because the analysis on which it is based does not properly focus on the source of the monopoly power in the supply of sporting events. It is because this power rests ultimately with the sports providers, rather than broadcasters, that the potential scale of market domination is underestimated. These providers are natural monopolies and cannot be broken up without effectively withdrawing the ‘product’ from the market. This situation can only intensify in the future with developments in broadcast technology. Digital television will allow for increased air-time to be devoted to sport, encouraging the entry of more broadcasters bidding for rights. Pay-per-view television will increase the ability of these broadcasters to extract monopoly rents from consumers. Rising incomes and increasing leisure time will provide a willing pool of consumer demand. ‘Do nothing’ looks an increasingly complacent response.

Another possibility is that the Government should develop the ‘crown jewels’ policy by extending them to include a much wider selection of sporting events. The eight events (or parts of events) currently

included cannot claim to be the only ones which constitute natural monopolies. Many others, including the Premier League championship and the Ryder Cup, are equally monopolistic.

However, there are a number of difficulties with such a proposal. In particular, it is not clear how the pricing of these events will develop even under 'crown jewels' regulations. On the one hand, competition between free-to-air broadcasters could inflate prices in a similar way to that which is occurring now. While the financial power of the satellite broadcasters would not be evident, the monopoly position of the sporting authorities would still allow them to hold an auction among the remaining broadcasters. On the other hand, there is a danger that underpricing might continue. Free-to-air broadcasters cannot draw on consumers' willingness to pay to finance their broadcasts – the licence fee is fixed and advertising revenue is based simply on quantity, not intensity of preference. (It is worth noting that the cricket authorities are already unhappy with their inability to secure additional funding for their sport because of this restriction.) Furthermore, terrestrial channels tend to be restricted in the air-time they can devote to certain events, given their obligations to other programming, and may be less responsive to consumer demands to innovate in the presentation of sporting events.¹³

Another option is to introduce artificially a degree of competition into those sporting competitions which are made up of a large number of individual contests, such as the Premier League championship. Thus the sports provider would be prohibited from selling the event in one package to broadcasters; instead individual teams would offer rights to their contests separately. Such a policy has been implemented by the German competition watchdog and the British Office of Fair Trading currently has a case pending which would force the individual sale of rights for English Premier League matches.¹⁴

However, as we have seen, the individual sporting contests which make up the overall competition are also monopolies. A single monopoly supplier will simply be replaced with a large number of smaller monopoly suppliers; the problem of monopolistic supply will remain. Indeed, such a policy might actually result in a greater aggregate

monopoly rent being extracted from the consumer. In addition, this type of ‘competition’ could result in some clubs becoming disproportionately wealthy, thus lessening the ‘uncertainty of outcome’ on which popular sporting events depend.¹⁵ If one or two clubs become overly dominant, then interest in the sport could be lessened in aggregate as the result of the competition becoming a foregone conclusion. Championship organisers have an incentive to keep the inequality of resources between clubs within reasonable limits.

In our view, the appropriate response to these difficulties is to institute a statutory authority to regulate the pricing level and structure imposed by the broadcasters who gain rights to events, the conduct of competitive auction for rights and the establishment of a modified ‘crown jewels’ policy.

How would this regulator work? In principle it could intervene at either (or both) of two points. It could intervene at the point at which the competitive auction for sporting rights takes place, regulating the number and types of bidders, the form of the auction and the prices bid. Alternatively, or in addition, it could intervene at the point where the consumer is charged by the broadcaster for the right to watch the event, controlling the level of the charge and the quality of the broadcast so that the consumer is not exploited.

From a monopoly perspective, the agency should only need to intervene at the second stage: the point where the consumer is charged. For that is where the damaging consequences of the monopoly power are felt; where the excessive prices impact on consumers. Moreover, if prices were controlled at that point, this would inevitably impact on the bidding process, with the bids offered at that stage reflecting the reduced opportunities for monopoly pricing at the second stage.

However, intervention at this stage would present practical problems, arising out of the different structures of ‘charging’ operated by the three kinds of broadcaster. The BBC ‘charges’ a licence fee: a compulsory tax that finances all the BBC’s operations, not just sporting

events. ITV does not charge viewers directly; instead it charges advertisers for advertising space within (or around) the sporting programmes themselves. The losers in this case are the consumers of the products advertised, who may have to pay higher prices than they otherwise would due to the higher than normal advertising expenditure.¹⁶ Only BSkyB has a pricing policy that approximates what might normally be considered a charge: subscriptions to sporting channels (usually combined in a package with other channels) and, increasingly, pay-per-view.

So if a second-stage intervention policy is to be followed, it will have to take different forms depending on the type of broadcaster. Other than this, the practicalities do not look insuperable. The licence fee for the BBC is already under political control and probably requires no further regulation. There is also probably not a strong case for regulating the price charged for advertising slots on ITV at these sporting events: those slots are competitive with other popular advertising slots and are also competitive with other forms of media outlets for advertising. However, if some form of regulation were thought desirable, it could be relatively easily implemented, using prices charged for advertising slots during programmes for which there are obvious competitors as a yardstick.

The principal challenge would be the regulation of the satellite and cable broadcasters (category B). The regulatory agency would have to prevent them from charging monopoly prices to consumers or from insisting on unreasonable 'packages' of channels which effectively raises the price of watching those channels dedicated to sports events. The latter could be relatively easily achieved by requiring that each channel (or at least the sporting channels) be priced separately, a proposal which also been made by others (Director General of Telecommunications, 1997). The former would require some specification of what a 'reasonable' price might be. For pay-per-view events, this could be some proportion of the actual admission price of the event. For subscription channels, the yardstick could be the subscription rate charged for non-sporting channels or perhaps some fixed multiple of the BBC licence fee.

Whatever second stage regulatory policy was followed, it is likely that some regulation would also be necessary for the first stage: the competitive auction for rights. In particular, it may be felt that the external benefits in terms of national cohesion described above, and articulated in the Department's own set of criteria, are so important that a guarantee of free-to-air broadcasting for certain events is necessary. (It is worth noting, however, that the second-stage regulatory pricing policy would be likely to bring down the costs of pay-per view or subscription channels, thereby encouraging more people to subscribe and lessening the exclusive nature of these broadcasters.) An additional element of the regulatory agency's work, therefore, would be to establish those events which are considered to display these external benefits in sufficient quantities that they must be broadcast free-to-air. Unlike the rationale on the basis of natural monopoly, the objective here is to encourage mass viewing of certain events by making them free at the point of use, thereby fostering national unity. Essentially, this would be the existing 'crown jewels' policy but within a new price regulatory framework.

Ironically, the price regulation might take the form of *raising* rather than lowering prices. Excluding the category B broadcasters from bidding might leave too much duopsony power to BBC and ITV (although Channels 4 and 5 would provide some element of competition). The result might be a price that did not provide an adequate return to the providers of the sporting events themselves; a price that might have to be adjusted upwards by the regulatory agency.

There would thus be two principal elements to the agency's work:

- regulation of category B broadcasters' pricing to subscribers
- specification of those 'crown jewels' events which must be broadcast free-to-air and regulating their price.

The first aspect of the regulatory agency's work would not need to specify individual events because the focus of the regulation would be the pricing and bidding activity of the broadcasters themselves. Access would be an individual consumption decision by the sports fan on the

Fair game?: tackling monopoly in sports broadcasting

basis of a fair (regulated) pricing regime. Ensuring mass consumption of certain events via free-to-air broadcasts at an appropriate price would be a decision made specifically with respect to the external benefits of national unity and cohesion for the event concerned.

Conclusion

The broadcasting of major sporting events is a matter of increasing national attention. These events are part of the social fabric and it is not surprising that socially conscious governments are anxious about the threat posed to their all-inclusive character by satellite and other non-free-to-air broadcasters. However, this concern, legitimate as it is, should not obscure another policy problem created by the very nature of the events concerned: their status as natural monopolies. To deal with this, as well as properly to take account of the national interest, regulation is necessary. There are a number of bodies that already have regulatory power in the broadcasting industry. Television is regulated by the Independent Television Commission (ITC), the Broadcasting Complaints Commission and the Broadcasting Standards Council, and radio by the last two and the Radio Authority. In addition, the Office of Fair Trading has to report on the BBC's fulfilment of its production quota and ensuring that the competition test for Channel 3 is met (Cave and Williamson, 1995). The regulation proposed here could be undertaken by any of these bodies, although perhaps the Office of Fair Trading looks like the most appropriate. Alternatively, a separate agency could be set up. But, wherever it is finally located, an *Office for Regulating the Broadcasting of Sport* of some kind is urgently needed.

References

- S. Cameron (1997), 'Regulation of the broadcasting of sporting events', *Economic Affairs*, 17(3), 37–41.
- M. Cave and P. Williamson (1995), 'The Regulation of British Broadcasting' in M. Bishop, J. Kay and C. Mayer (eds.) *The Regulatory Challenge*, Oxford: Oxford University Press.
- P. Sloane (1997), 'Editorial: The economics of sport: an overview', *Economic Affairs*, 17(3), 2–6.
- Director General of Telecommunications (1997), *Bundling in the pay television market*, OfTel, London.

Notes

1. Academic commentators have also ignored the issue of monopoly. For instance, perhaps the best recent summary of the state of British broadcasting and its regulation by two economists (Cave and Williamson, 1995) does not mention monopoly at all. And in an article reviewing issues around the regulation of sports broadcasting, Cameron (1997) considers the monopoly power of the broadcasters but does not discuss the *provider* monopoly power – that of the governing bodies and competition organisers – which lies at the root of the monopoly relationship with consumers.
2. BBC News Release, *Sports ignore mass TV audience at their peril, warns BBC*, 16 December 1997.
3. Sky's coverage of the recent England v. Australia rugby international on 15 November 1997 attracted 0.6 million viewers compared with 3.3 million for Ireland v. New Zealand on the same day broadcast by the BBC; in 1993 the BBC's coverage of the Ryder Cup attracted 4.1 million compared to Sky's coverage in 1995 which attracted 0.6 million. Figures taken from the BBC News Release, 16 December 1997.
4. It is not possible to buy only sports channels: the £360 charge is for a package of channels which includes general entertainment.
5. BSkyB publicity material.
6. BBC News Release, 16 December 1997.
7. Department of Culture, Media and Sport, (1997), *Broadcasting events of national significance: criteria for identifying events to be listed*.
8. Something similar recently occurred in the World Chess Championships. When the two best players in the world refused to play under the existing governing body. The resulting 'world championship' game – featuring other players – was effectively ignored by fans, who followed instead the match between the acknowledged top two players. This split continues to bedevil world chess in 1998. On the other hand, in football, where a 'competing' event to the FA Cup – the old League cup – was introduced, it is instructive to note that it did nothing to compete

away the attraction of the older event. It was viewed by fans as simply a separate and less important 'product'.

9. Technically, if the monopolist were able to engage in perfect price discrimination – charge all consumers exactly what they would be willing to pay – then it would produce at the optimal point. However, in practice this is rarely possible.
10. We believe this relationship to be one element under consideration by the David Mellor chaired Football Task Force, set up by Tony Banks. Although the analysis of this paper focuses only on the *media* consumption of sporting events, we believe it could also inform the Mellor task force's work, as monopolistic relationships and pricing also exist between individual clubs and their supporters.
11. This recognises that suppliers of sporting contests have a more complex set of objectives than conventional economic theory would suggest. Individuals in sporting governing bodies are not, generally speaking, trying to maximise their personal return on capital invested; rather they are concerned with maximising the revenue available to their sport. However, an increasing number of football clubs are now listed companies, perhaps suggesting that conventional 'profit-maximising' behaviour will become more prevalent in the future.
12. Although it is worth noting that this relationship was showing signs of breaking down during the 1980s before the advent of the satellite broadcasters, as ITV became increasingly aggressive in its attempts to gain the rights to live football matches.
13. This situation is likely to change with the advent of digital broadcasting.
14. 'Why football and business don't go', *The Economist*, 20 December 1997, p. 120; Office of Fair Trading News Release, No. 53/97. *Court to hear Premier League case in 1999*, 12 November 1997.
15. See *Economic Affairs*, volume 17, no. 3, a special edition on the economics of sport.
16. Workers and shareholders may also lose if the producers concerned have to cut back production or reduce costs elsewhere in order to accommodate the extra advertising expenditure.