Competition Issues of the Korean Broadcast Service Provision Market in the Multimedia and Multichannel Era

Youn Sugmin and Kim Heejin

Abstract

The changes in the Korean broadcast service provision market for the last few years are summed up as the advancement from a terrestrial to a multichannel TV situation. Terrestrial TV is weakening while cable SOs are experiencing rapid growth. Cable SOs, however, are also facing competition. Major over-the-air networks are spinning off PPs centered on entertainment, drama and sports in an effort to diversify their business. The production budgets are relatively focused on commercial content, which in turn are moved to the pay PP channels. In this vein, public and universal service functions of over-the-air networks are weakening. Pay TV exists as a sub-low market, centered around cable SOs. PPs rely highly on advertisements while adopting a low-cost programming strategy. Satellite TV is suffering from this sub-low market. The rising competition in the broadcast service provision market does not mean that sociocultural policy matters will fade away. On the contrary, the efforts to link competition in broadcast market to its desirable sociocultural outcomes should persist.

Keywords: broadcast market competition, retransmission of terrestrial TV, cable SO, cable PP, program quality, satellite TV, IPTV

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Youn Sugmin (Yun, Seok-min) is an associate professor in the Department of Communication at Seoul National University. His publications include *Communication Policy Studies* (in Korean) (2005). E-mail: younsm@snu.ac.kr.

Kim Heejin (Kim, Hui-jin) is an associate professor in the Department of Communication at Yonsei University. Her publications include "The Emergence of Multinational Media Buying Company and Its Impact on Korea's Advertising Industries" (in Korean) (2003). E-mail: hjkm@yonsei.ac.kr.

Introduction

Recently, the structure of the Korean broadcasting market has been going through dramatic changes due to the introduction of various broadcast service providers that have merged the characteristics of broadcasting and telecommunications. In addition to cable TV and satellite TV, mobile TV (digital DMB and terrestrial DMB) networks have been introduced, and internet-based multichannel broadcast services (IPTV) and mobile broadcast service through broadband wireless Internet (Wibro) also are ready to enter the market.

Under such circumstances, the TV service provision market, which used to be characterized by the domination of a small number of vertically integrated over-the-air TV networks, is turning into an arena of intense competition. One of the natural consequences of intense competition in the service provision market is the crisis faced by the over-the-air broadcasting networks. With the audience and advertising market shares rapidly declining, networks have started diverse new channels (program providers, PPs) as part of business diversification efforts. Recently networks are also attempting to transform themselves into multichannel service providers through the use of terrestrial broadcasting. Amidst this harsh market competition, conflicts concerning the acquisition and distribution of content with mass appeal at the lowest price are emerging among the new multichannel service providers. The unending and fierce disputes surrounding the retransmission of over-the-air TV channels by new entrants into the TV service provision market can be viewed properly in this context.

In this new broadcasting market environment, the traditional concepts of TV are going through fundamental transitions in literally every aspect, in terms of content, means of providing service, viewing (consumption) behaviors and sociocultural effects (Baldwin and Youn 1994; Youn 1996, 1999; Youn and Kim 2001). This situation involves a number of critical academic/business/policy issues in relation to TV as the most dominant social communication form of our time.

At the center of such complex and multi-staged changes being observed in Korean broadcasting, the keyword is “competition.” We can easily see that currently in Korea, rather unfamiliar themes related to competition are emerging as central policy issues of interest in numerous broadcast policy-related forums (Cho 2005; Hwang K. 2005a; Kwon 2005a; Lee 2005; Youn 2005). As will be discussed in greater detail later, the Fair Trade Commission (FTC), the general regulatory policy body of market competition, is becoming increasingly more involved with fair competition issues in the broadcasting service provision market.

This article will review the nature of the structural changes of the broadcast industry, with a particular focus on the intensifying competition in the TV service provision market in Korea. Discussion of the newly evolving public policy issues that are important to understanding the new competitive market situation will follow. While specific data from the Korean broadcast industry will be used to represent the real situation, discussions are not confined only to the Korean situation.

Changes in the Broadcast Industry Structure and Emergence of Competition Issues

The significant emergence of competition issues in broadcasting is deeply related to structural changes in the broadcasting industry, namely the expansion of service provision sectors. In discussing competition issues in the broadcasting industry, sociocultural factors are as important as market factors.

Structural Changes in the Broadcast Industry and Competition Issues

The broadcasting industry is experiencing rapid structural changes due to the expansion of service provision sectors. Until recently, TV service delivery means (terrestrial radio-wave channel bands) were physically scarce, and only a few over-the-air TV service providers existed (Youn 1999, 2005). Consequently, service providers held strong market power in terms of both the audience and the content production/distribution markets. Under these circumstances, the upstream vertical integration internalizing the programming/distribution, production, and content by the service providers was a typical phenomenon. Even a significant portion of the remotest upstream content resource market elements, such as writers, actors, directors, sports teams, and events were integrated in order to secure a stable supply and exclusive rights to content. Independent players in the upstream sectors, such as the independent production companies and freelance writers/actors, were also structurally subordinated to these few service providers.

The situation has changed drastically, however, in the last few decades. In the multimedia, multichannel, digitalized media environment (= highly competitive service provision market situation) where the physical scarcity of signal delivery sources is no longer an issue, over-the-air broadcasters as service providers no longer enjoy dominance. As a result, the vertically integrated structure of TV faces fundamental changes in distribution and production as well as content.

The increase in the number of service providers, along with the relative increase in content scarcity has moved the market power center from the downstream service provision sector to the upstream content sector. Consequently, the vertically integrated structure controlled by service providers has started to dismantle itself from its weakest upstream links, namely the content and production sectors.

The expansion of media platforms causes repetition, repackaging, and reuse of content within a platform and between platforms. Under such circumstances, terrestrial broadcast programming is gaining more attention from all the new entrants as the content option of prior importance. This transition even leads to a downstream vertical integration of the service provision sectors by upstream content sectors.

As the competition in the service provision market intensifies, broadcast regulatory schemes also undergo drastic changes. In general, the regulations can be divided into two categories: economic regulations that intend to ensure the normal functions and the efficiency of the market, and sociocultural regulations to garner "public interest" through broadcasting services. Until recently, when a clear sense of the competitive "market" was not present, the focus of broadcast regulation was placed on sociocultural regulations so as to control the immense social influences of the few powerful service providers. However, as competition in the provision market grew stronger, previous sociocultural regulation policies shifted to economic regulations. Moreover, in the economic dimension, the focus shifted from structural (market entry and ownership) regulations to conduct (actual service provisions) regulations.

Assessing the level of competition in the broadcasting market necessitates a discussion of competition analysis concepts such as market definition and effective competition (Hong 2005; Cho 2005; Hwang K. 2005a), which are not familiar to researchers in the field of communication studies. It is quite troublesome, however, to apply these analytical concepts to broadcasting in a parallel manner.

First of all, the definition of the broadcast market is difficult in many respects compared to the general definition of the market. We need to distinguish private from public broadcasting, the latter of which offers services not provided by the market, and prior to any discussion of the broadcast market definition, clear definitions of public and private broadcasting are needed. What we call public broadcast, however, often shows little difference with private broadcast. The public over-the-air broadcast networks are some of the dominant market players in the TV service provision market and new entrants desperately seek the retransmission of these channels as a matter of survival (Hwang K. 2005b).

Academic research results are hardly consistent as to how to set broadcast market boundaries (Crandall 1997; Jones 1997; Levy and Pitsch 1985; Napoli 2001; Owen and Wildman 1992; Thorpe 1985). How to test substitutability among broadcast services is becoming the primary unsettled issue (Lee 2005; Hwang J. 2006; KBC 2006).[1] The

commonly used profit/revenue measure may not be sensitive enough in the media market where the consumers/audience do not pay directly in proportion to the amount and quality of services they use. One of the alternative ways to estimate substitutability is to measure the changes in the audience's media usage time. Substitutability in terms of uses and gratifications, namely the degree to which various media compete against similar gratifications, can be another alternative for measuring substitutability (Albarran and Dimmick 1993). However, it is very hard to implement a practical and precise measure for the substitutability of media uses and gratifications.

In addition, it is important to recognize that broadcast markets (media markets more in general) are divided geographically. Nationwide broadcasting networks and satellite broadcasters provide services to the nationwide market, while local television stations, radio stations, and cable providers offer only local boundary services. This is the result of sociocultural policies (localism) as well as technological and economic factors. In this context, analyzing nationwide competition alone cannot explain the nature of competition in local market units that usually reveal a high degree of market concentration compared to national markets (Noam 1999).

The problem is worsening because of the radical changes in the very nature of broadcast media in the so-called convergence process between broadcasting and telecommunications. As Compaine (1999) indicates, it might be pointless to evaluate competition in narrowly defined media markets as we are heading toward a digitalized era of media convergence.

Secondly, concerning the status of competition in broadcasting markets, it is difficult to set a standard for effective competition that is both practical and meaningful. This standard of effective competition can vary depending on situations and policy goals. The regulatory changes made for cable television in the United States serve as a good example (Napoli 2001).

1. This can be illustrated by the recent dispute between Hwang Junseok and the Korean Broadcasting Commission (KBC) over whether digital cable TV and IPTV are substitutable. Based on the research of Lee J. (2005, 11), Hwang argued in a seminar that the substitutability of the two media are uncertain and suggested the early implementation of IPTV. Opposed to this, the KBC carefully reanalyzed Lee's research and distributed a document disputing Hwang's argument.

In sum, the evolution of a multimedia, multichannel situation is raising complicated competition policy issues such as market definition and effective competition. However, these issues are not easily resolved because of the unique nature of the broadcast market as well as conflicting yet intertwined business and policy interests.

Sociocultural Considerations

Will the content-related public goal in broadcasting be as important in the future as it is now in the newly evolving and highly competitive broadcast service provision market? In an over-the-air broadcast TV situation, various regulations aimed at sustaining the quality and diversity of TV content have been legitimated. In a multimedia, multichannel situation, however, questions are raised as to whether it is appropriate to maintain such a content-related regulatory scheme.

Due to the development of means of multichannel delivery such as cable TV, satellite broadcasting, DMB, and IPTV, the goal of diversity apart from the somewhat ambiguous goal of quality seems to have been achieved well enough. According to Youn (1994) cable subscribers receive preferred programs six times more than non-subscribers do, and as a result, the rate of selecting preferred types of programs doubles.

Yet it is still uncertain if a number of specialized channels automatically meet the minority's need well enough and guarantee advancement in the pluralistic representativeness of TV services. This might not be the case. Those who favor market principles indicate that in a multichannel, multimedia situation, TV viewers can communicate their needs by paying directly for what they want, and even minority groups can sufficiently satisfy their needs this way (OECD 1999, 66; Owen and Wildman 1992, 106-107). This may only be true for those minority groups, however, who have the ability to pay, as multimedia, multichannel situations strongly favor purchasing power.

However, it is still hard to tell what the quality of overall TV content would be like in a highly competitive multimedia, multichannel

service provision market. The multiple windows (retransmission outlets) in a multimedia, multichannel situation increase the profit maximizing production budget of TV programs (Owen and Wildman 1992; Waterman and Grant 1989). If we assume that a bigger budget means better quality programming, the highly competitive multimedia, multichannel service provision market would improve the quality of TV programming.

It is unrealistic, however, to assume that the multi-window effect is applicable to every program. The type of program content that is provided through multi-windows and expected to incur an increase in production budgets, is likely to be rather limited. This content would largely include movies, sports, drama, and adult content, i.e. content that has strong mass appeal and are entertaining in nature.

In this highly competitive multimedia, multichannel situation, both program budget and manpower will be reallocated towards the maximization of cost efficiency as a matter of survival. Brutal market principles will prevail in the production and distribution of content; thereby, deepening the gap between commercial and public content, and eventually weakening the diversity of content, or pluralism. This might be a more realistic interpretation of the multimedia, multichannel window effect on programming, particularly in a broadcast service market situation in which competition is rising intensely while available market resources are limited.

Problems are not confined to the supply side, either. In this highly competitive and quantitatively expanded TV service situation, the viewers' unbalanced content consumption does matter. When TV was a simple medium, freedom of choice was limited and most viewers had little choice but to accept the given content passively. However, as the number of channels increases significantly, TV use becomes complicated, leading to the personalization of program uses and the widening of the gap between the active/skillful users and the users with limited understanding of the various options available to them (mostly in the older generation, the less educated, and in children from lower-class homes) without adequate media literacy education.

Furthermore in a multichannel situation, viewers can easily pursue their preferences (Youn 1994). This tendency can result in an unbalanced form of TV consumption. To make matters worse, content choices could be systematically related rather than individually randomized to such sociocultural variables as education, gender, and age. For example, those with a high socioeconomic status (SES) may prefer high quality news/information/cultural programs while lower SES groups indulge in "lowbrow" entertainment, dramas or sports programs. Without adequate media literacy guidance or instruction, the social and political knowledge gap between different SES groups is likely to grow as a result.

These issues are just a few of the sociocultural implications of the newly evolving and highly competitive multi-TV service markets. Again, these issues might be more devastating where the changes are literally revolutionary while sociocultural safeguards are loose. The current situation, where new TV platforms are unfolding at a rate without precedent while markets, content, public policy, and viewer's sociocultural awareness lag far behind, seems to be the case. Therefore, it needs to be emphasized that even in a situation where competition in the service provision market is growing stronger, efforts to secure sociocultural objectives such as quality and diversity of broadcasting will remain important.

Transitory Characteristics of the Broadcast Service Provision Market in Korea

As discussed above, the evolution of a multimedia, multichannel situation makes competition issues such as market definition and effective competition matters of important concern. The definition of broadcasting market and effective competition, however, are difficult to determine, particularly in a situation where conflicting industry and policy interests are intertwined. More importantly, public objectives such as diversity and quality cannot be automatically achieved through competition in and of itself. Therefore, before we can go further with competition issues in broadcasting, we need to gain a more elaborate understanding of the relationship between sociocultural objectives and the competitive market, an area that unfortunately lacks analytical reviews. Aware of such limitations, this paper attempts to roughly sketch the major changes and issues of the broadcast service provision market in Korea with a focus on over-the-air, cable, and satellite TV services.

Over-the-Air Broadcast TV

The Korean broadcast service provision market has been rapidly shifting to multimedia and multichannel services during the last decade. In this process, it has also shown consistent growth. In terms of total sales, the size of the broadcast market has grown from 2.3 trillion won (app. US$2.3 billion) in 1995 to 6.3 trillion won (app. US$6.3 billion) in 2004, which is an average annual growth rate of 9.7 percent (home shopping sales excluded).

There are huge differences, though, among broadcast service providers if we look more closely into the market. The direction of change in the Korean broadcast service provision market in the early twenty-first century can be best represented by the constant decrease of over-the-air broadcasts and the advancement of multichannel pay service providers (Pay Broadcasts). During the last decade, the annual growth of over-the-air stations has been 4.9 percent, which falls short of the overall GDP growth of Korea (6.9 percent) during the same period. Cable system operators (SOs) have shown an annual growth of 30.5 percent, and program providers (PPs), 23.1 percent. In terms of market share, the share of over-the-air stations has been shrinking from 88.2 percent in 1995 to 55.9 percent in 2004, while the shares of SOs and PPs grew to 21.3 percent and 18.2 percent in 2004, respectively.[2] During the same period the audience share of over-the-air TV went down as well while that of cable showed a

2. The sales of Cable SOs, reached 1.348 trillion won in 2004, which is almost 38% of the sales of over-the-air operators, 3.5448 trillion won.

constant increase (KBC 2005).

Moreover, the advertisement market of over-the-air stations is being heavily impacted by cable (Park 2005). As shown in table 1, advertisement market sales over-the-air decrease, while the market share of cable consistently rises. The main reasons are the rise in the number of cable subscribers and ratings resulting in higher advertisement reach, the legal utilization of commercial breaks that receive greater attention, easier broadcasting of targeted ads due to specialized channels, and the lower cost of cable advertising (cable CPM is 1/10 - 1/7 compared to over-the-air TV). Since these structural factors are unlikely to change significantly in the near future, it is expected that these ad sale tendencies will continue.

Table 1. Ad Sales Changes among Major Korean Broadcast Service Providers (2002-2004)

Category	Sales (in mil. US$)			Growth Rate (%)	
	2002	2003	2004	2003	2004
TV	2,439.4	2,367.1	2,235.0	–3.0	–5.6
Radio	278.0	275.1	265.3	–1.1	–3.6
CATV	234.5	297.5	399.9	26.9	34.4
SatTV	–	–	31.0	–	–

Source: Cheil Communications (2004, 2005).

In short, the situation of over-the-air stations is in jeopardy (Chung et al. 2006). Therefore, over-the-air stations are making efforts to improve external conditions such as extending broadcasting hours, legalizing mid-program commercial breaks and raising advertisement rates. At the same time, they attempt to improve their internal management conditions as well by downsizing personnel and cutting costs (KBC 2005, 16).

The changes that over-the-air stations are experiencing, however, are more than simple contractions due to enhanced competition. It seems that the medium of terrestrial TV itself is undergoing

fundamental weakening, or more precisely, disappearing.

The original form of terrestrial TV provides qualified mass appeal content under the most stringent content regulatory schemes through the over-the-air channel for free. Such characteristics of terrestrial TV, however, are changing in every aspect. As of June, 2005, amongst 17.4 million total households nationwide, there are a total of 14,079,814 cable subscribers (80.5 percent of all households) and 1,825,538 satellite TV subscribers (10.5 percent of all households). Including households that subscribe to both cable and satellite TV, it can be assessed that at least 85 percent of all households are watching broadcasts via other means than terrestrial TV (Korean Cable TV Association 2006). This means that households that watch "terrestrial broadcast programs" on the "terrestrial waves" only amount to about 15 percent as of the end of 2005, and this percentage is further declining. Terrestrial TV as an independent physical medium is losing its ground.

Of course many of the pay broadcast subscribers are still largely watching terrestrial TV. They have subscribed to the services not to watch cable channels, but rather to solve the reception problems of terrestrial waves. It is just like the master antenna of an apartment house being replaced by low cost pay broadcast networks. Since the fee for the cable is quite low and is commonly included in the monthly apartment management fees, many subscribers are even unaware of their subscription (Kwon 2005a). If the facilities of the apartment houses' master antennae for watching terrestrial TV are repaired adequately, or if the digitalization of terrestrial waves advance to the multichannel model, it is possible that terrestrial waves as a physical transmission means could be revived.[3]

However, in a situation where pay TV is the common means of TV viewing for most people, and with loyal audiences forming

3. During recent World Cup soccer events, terrestrial stations conducted multi-terrestrial channel broadcasting via the channels originally allocated for digital broadcasts. However, due to some technological problems and the lack of sufficient reflection of public opinions, it was heavily criticized.

around the original pay TV channels, it would not be realistic to consider pay TV simply as retransmission carriers of terrestrial TV. Although still in a transitory phase, it makes more sense to see pay TV not as an auxiliary means for terrestrial TV but as a broader concept of broadcasting and terrestrial TV being incorporated into this expanded broadcasting.

As media increases, it is not surprising to see windowing, re-purposing or syndicating of content such as terrestrial TV channels among various platforms. Most new entrants do not have sufficient subscription bases to secure the revenue for providing original TV content. Thus, in the initial stages, they serve as a platform to deliver content produced by other media (Waterman and Grant 1991; Werbach 2000). As these new entrants secure subscription bases, they are able to secure original content. The way in which cable television has evolved to become the original content provider from the providers of Hollywood movies or old network broadcast series serves as a good example of such a process. The broadcasting companies themselves were more dependent on Hollywood movies than they are now.

The current situation in Korea, however, is that TV platforms are expanding at a rate without precedent, even by global standards. In this situation, it is expected that: a) As the competition in the TV service market becomes more intense, the pressure to decrease costs increases. Under such circumstances, the ability to produce original content decreases, for both the incumbents and the new entrants. Consequently, future TV is expected to show more repetition, repackaging and reuse of content within a platform and between platforms; b) Those who produce original content are likely to maximize the utilization of it to curtail costs to the level of buying used content. Such a high level of content reuse will result in damage to the "newness" of the new entrants and limit their financial performance. This limitation will intensify the level of dependency on secondhand content again.

In sum, recently the status of terrestrial TV as an independent means of delivery of TV signals is rapidly weakening. Terrestrial TV in Korea is no longer a medium but rather the most qualified sources of mass appeal channels in the basic tier of various pay TV platforms.[4] The terrestrial broadcast channel is becoming ubiquitous with its basic content provided through various broadcast media. This transition is accelerating as terrestrial TV networks participate in entertainment oriented PP business (mostly drama and sports channels).

Of course, such trends do not always progress smoothly under conflicting business interests and regulatory confusion. Still we can observe that the market principle of program/channel distribution gradually prevails. One good example is the retransmission policy of terrestrial TV channels in Korea, which will be reviewed in more detail later.

Pay-TV Service

The development of pay broadcasting as an alternative/complementary service to terrestrial TV in the last decade was indeed astonishing. As of June 2005, the subscription rate of Pay TV is at about 90 percent, which is at top levels even compared with other developed countries (it reaches nearly 100 percent in Gwangju, Busan, and Ulsan) (Korean CATV Association, 2006). Most families watch TV through one type of pay TV service (mostly cable) other than an over-the-air terrestrial medium. The latter counts for only 10-15 percent, and its proportion is continuously decreasing over time. Therefore, the TV service provision market nowadays in Korea can more or less be equated to the pay-TV service market.

The major players in the pay broadcast service provision market are cable and satellite TV. Between these two, cable holds the dominant position while satellite TV follows behind as the late starter. Cable SO in Korea is literally the winner of the multichannel broadcasting era. Cable, which had experienced a shaky beginning at the

4. The traditional terrestrial TV networks, which used to be the dominant TV service providers, are becoming dominant channel distributors, and are expected to transform ultimately into dominant content providers.

time of its introduction and was criticized as a typical case of wrong broadcast policies, gained firm ground after ten years. As of December 2005, 119 SOs have acquired 14,079,814 subscribers nationwide in 77 market (franchise) areas, which is over 80 percent of all households.

With a series of deregulatory measures after 2000, cable SOs are capable of providing flexible channel selection and pricing (tiering system). Also as the market entry policy of PPs was deregulated, they gained a favorable position in negotiations with PPs. Besides, the business model was also diversified due to auxiliary services such as broadband cable Internet that resulted in better management outcomes. Among the SOs, 9 multiple system operators (MSOs), including Taekwang Industrial, hold 70 percent of the market. Of course it is not expected that cable subscriptions will grow as fast as they have been. Due to competition with satellite TV and the imminent introduction of IPTV, there is the possibility that the subscription rate will decrease (Kwon 2005b).

SOs are opposed to the early introduction of IPTV, because it could completely displace their service. However, the telecommunication companies (telcos) such as KT and Hanaro in Korea need IPTV desperately in order to complete Triple Play Services (TPS). Cable SOs hope that the introduction of IPTV will be delayed until cable completes its own shift to digital cable service. However, the digitalization of cable itself is a risk factor for cable SOs. Digitalization will require immense investments, while sales growth will occur slowly (Kwon 2005b). Overall, while the status of cable has been growing to the level of terrestrial TV, it is facing the difficult task of competing against the telcos.

Satellite TV has been in service since March 2002, and has acquired 1,825,538 subscribers as of June, 2005. At the early stages, it also faced hardships due to factors such as the immature pay TV market, weaknesses of late movers, and the problem of not being allowed to retransmit terrestrial TV except for public channels. In spite of the constant growth in subscription sales, it has not yet managed to find a way out of deficits as of December 2004.[5]

The PPs also experienced difficulties in their early stages because of a policy that requires a main programming specialty. However, it entered free competition when the policy changed to an approval system and eventually to a registration system in 2000. Many PPs are still facing hardships because their negotiation power with SOs has been decreasing due to the introduction of flexible tiering systems and the advent of MSOs. The PP registration system enabled large enterprises and over-the-air TV to enter the PP market and made it even harder for the smaller PPs to compete. As of December 2005, profitable PPs are mostly MSP/MPPs of large enterprises, holding 70 percent of the total PP sales. Among them, about half are home shopping operators.

Key Competition Issues in the Korean Broadcast Service Provision Market

In the present Korean broadcast market, which can be summarized by the weakening of terrestrial TV and the growth of pay TV (especially cable), complicated competition issues are emerging on a daily basis which cannot be fully covered here. In this paper, we will focus our discussion on some major and closely related cases of competition that have been at the center of debate for the past few years in Korea. These include the weakened position of terrestrial TV, the sub-low fees of pay TV, and the retransmission of terrestrial channels.

Terrestrial Broadcast: Weakened Position and the Advance to PP Market

Recently, the primary issue surrounding structural changes in the

5. The total revenue for satellite TV was 255 bil. won in 2004, with subscription fees holding 69% (176 bil. won) of the total. The total assets of satellite TV were 812 bil. won in 2004, and capital was 92.1 bil. won, which means that there has been a capital impairment of 31.9% compared to the previous fiscal year. Also the debt ratio increased 69.3% compared to the previous fiscal year (KBC 2005, 22).

Korean broadcast market is the weakening of terrestrial TV, and the solid establishment of multichannel broadcasting as a result. What do such changes mean? Will not problems arise when the terrestrial channels become only one part of a countless array of many channels? Is it okay to leave all these changes to the market?

In a situation where terrestrial channels are viewed mostly via multichannel media such as cable and satellite TV, it is common for the position of terrestrial channels to be continuously weakened due to competition with other specialized PPs, and the diversion of viewers to multichannel spaces (Baldwin, Barret, and Bates 1992; Youn 1999, 314). Thus, terrestrial TV attempts to maximize window effects to the diverse service-providing platforms. The window effect of terrestrial TV is implemented primarily for highly popular commercial programs such as entertainment, drama, and sports. It causes them to focus their production resources on content categories with strong commercial viability, and even to shift programs that had been generally available via terrestrial waves to pay-based channels.

In fact, these prospects are already becoming a reality in Korea, with terrestrial channels filling their cable PPs with commercially-oriented drama, entertainment, and sports, and the shift of previous terrestrial programs (such as sports events) to the PPs. Terrestrial TV, which is losing ground as an independent delivery medium in an era when most Korean households are watching TV via cable or satellite TV, is spawning diverse PPs and provides programs on a pay basis. Mostly, those PPs are drama or sports channels with a strong commercial orientation. Additionally, major programs that have been generally provided via terrestrial waves are being shifted to pay-basis accessible PP channels.[6] Therefore, it can be said that the PP market entry of the terrestrial broadcast is weakening their uniqueness,

6. For example, the terrestrial TVs transmit major professional baseball league games via their PP channels. It is likely that more and more terrestrial TV programs that have been freely accessible will be siphoned by pay TV. It raises the issue of introducing a universal access rule, which is currently in effect in England (Hong and Jung 2005, 25-27).

Table 2. Status of PPs That Have Spun Off from Terrestrial Stations (as of June 2005)

Mother Company	Number of Channels	Company Name	Operating Channel Sales	Total	Sales of Mother Company	Ratio to Mother Company	Ratio to Total MPP
MBC	4	MBC Game	MBC Game	64,379	744,914	8.64%	5.48%
		MBC Dramanet	MBC Dramanet				
			MBC Movies				
		MBC ESS Sports	MBC-ESPN				
KBS	3	KBS SKY	KBS SKY Drama	30,491	1,245,470	2.45%	2.60%
			KBS SKY Sports				
		KBS	KBS Korea				
SBS	6	SBS Drama Plus	SBS Drama Plus	62,432	652,815	9.56%	5.32%
		SBS Golf Channel	SBS Golf Channel				
		SBS Sports Channel	SBS Sports Channel				
		SBS	SBS Satellite				
		MPP total sales			1,174,018		100%

Source: KBC (2005).

which is characterized by broad accessibility and diversity in balancing both commercial and public content.

Then, will those changes in terrestrial TV be complemented by the other channels, resulting in an increase in the overall quality and diversity of broadcasting as a whole? Considering the conditions of pay TV services in Korea, the answer is rather pessimistic. As will be discussed in more detail below, in the present low-priced Korean pay TV market situation, PPs are in the most vulnerable position. Their level of reliance on commercials and infomercials is abnormally high, as they do not receive proper fees for providing programming. The majority of PPs have to manage their programming with production budgets less than a tenth of those of terrestrial TV.

This provides an important clue as to the question of what the implications for the changes in the Korean broadcast industry are in terms of quality and diversity of services. The shift to multimedia and multichannel means that previous terrestrial based TV services are being replaced by multichannel pay services such as cable and satellite TV. In this process, terrestrial services are losing diversity and accessibility without being sufficiently complemented by the PP channels.

Pay-TV: Sub-Low Pricing

With only 10 to 15 percent of households watching TV via terrestrial waves, competition in the Korean TV service provision market can actually be equated to competition amongst pay TV services. Competition in the pay TV service market is generally expressed in two ways: through price and quality of service. Competition in the Korean broadcast market is intensifying in both respects.

The most important factor that has affected all competing operators of the Korean broadcast service provision market is the overwhelming implementation of the sub-low price of the multi-layered pricing system (the tiering system) by cable, the dominant pay TV service provider (Hwang K. 2005a).[7] Table 3 shows the cable fee structure in Korea. The upper table is made by the Korean Cable TV association, an interest group representing cable SOs and PPs, while the lower table is made by the Korean Broadcasting Commission (KBC), the major broadcasting regulatory body. Despite some differences partly due to the statistical methods used, both show that cable pricing is mainly concentrated at below 8,000 won (app. US$8) per month. The rate of pay TV is so low that it is not a financial burden at all for most households. Sometimes the rate is included in the monthly utility fees of apartments, and the subscribers are not even aware of the subscription (Kwon 2005a, 52-53).

It is believed that this too low price of cable TV is distorting the

7. According to a survey of cable TV subscriptions and services in Korea by the Korean Broadcasting Commission, 2004, the average subscription revenue per household turned out to be as low as 5,492 Won. The reason SOs are profitable despite such low fees is because their income structure is diversified; subscription fees 48%, advertisement 24%, and broadband Internet 28% (KBC 2005, 17-19).

Table 3. Cable Subscription Status by Fee (as of June 2005)

Fee (₩) Cable Assoc.	~4,000	4,000~ 8,000	8,000~ 15,000	over 15,000	etc	Total
Total	1,982,099	7,823,234	1,042,847	862,792	1,625,926	13,336,898
Ratio	14.9%	58.7%	7.8%	6.5%	12.2%	100.0%
Fee KBC	Mandatory (~4,000)	Packet1 (app.5,000)	Packet2 (app.8,000)	Packet3 (app.10000)	Basic (15,000)	Total
Total	773,903	7,513,199	3,316,986	154,218	1,947,991	13,706,297
Ratio	5.6%	54.8%	24.2%	1.1%	14.2%	100.0%

Source: Korean Cable TV Association (2006).

overall competition in the TV service provision market. The primary casualties of such sub-low pricing are the PPs and satellite TV. Due to such low-priced subscription revenues, the largest portion of which goes to SOs, most PPs are heavily dependent on advertising sales. The subscription fee ratio that goes from the SOs to the PPs has dropped from 34 percent in 1997 to 15 percent in 2004.[8] Satellite TV is providing PPs with 44 percent of its fees, which is much higher than its counterparts (Kwon 2005b). Since satellite TV distribution is much lower than cable, however, it is a more reasonable choice for the PPs to provide their programs to cable and rely on advertisements.

For example, in the cases of CJ Entertainment and On Media, the largest PPs in Korea, advertising sales comprise 80 percent of total revenue. Thus, it becomes a better business strategy for them to stay stable in the basic service tier of cable by not providing channels to the competing satellite TV (Skylife), rather than to jeopardize their positions as basic cable channels by providing channels to the latter

8. Converted into cost per person, it is 5,300 won in 1997 and 1,200 won in 2004.

in order to gain a better portion of subscription revenue. This is what CJ Entertainment and On Media actually did. Struggling to maintain the normal pay TV price level (15,000 won+), Skylife is suffering from low subscription rates and, to make matters worse, is losing the most attractive PP channels.

The settling of low-priced pay broadcast service is likely to hinder the development of the TV industry as a whole. As the Korean pay broadcast system has been established as a low-priced pay market led by cable, most PPs have no choice but to implement low-cost programming in order to avoid risks in the weak income structure.[9] In 2002, the PPs spent 2.9 billion won (app. US$3 million) per channel on the average (Kwon 2005b). Compared to the three terrestrial SOs who spend more than 200 billion won (app. US$210 million) annually for production and programming, their inferior situation is clear.[10] The weakened situation of PPs again contribute to the low-priced pay TV market structure.

How did such a low-priced pay service come about? In a sense, it can be regarded as the result of market functions that reflect the real demands of viewers, which was reached after a long process of trial-and-error from the time cable was introduced. The existing relay cable service operators (RO) had been providing adequate services for this demand, while cable, which first attempted to provide enhanced high-price services, removed the bubbles in services and prices and came to reflect the real demand. Such arguments are backed up by the fact that cable was low in subscribers before implementing the low-cost service tier and high-price/high-quality oriented satellite TV is still operating in the red.

9. As was discussed above, the evolution of the multichannel situation weakens the status of service providers while strengthening that of content providers. In Korea, however, cable takes an almost monopolistic position, resulting in the superiority of the service provider.
10. Of course, there are huge differences among the PPs. In 2002, MBN TV invested 16.3 billion won and LG Home Shopping 12.4 billion won in programming. On the other hand, there is a channel that spent only 0.4 billion won on programming.

From another viewpoint, however, these low priced cable tiers could be the results of harsh competition between cable SOs and ROs. The most salient case is the low price for group subscription at apartment complexes. It was actually an abnormal group discount that occurred during the transition period when ROs changed into SOs in 2000. During this process, the KBC recommended that service providers maintain the current price level due to concerns over viewer claims. This resulted in the form of a group subscription which was non-existent in cable user disclaimers, and which helped stabilize the abnormally low pricing system.[11]

No matter the reasons, the low-priced pay TV market in Korea is entering a rather unhealthy spiral. With the superior position of cable SOs, this system is maintained at the sacrifice of PPs and competing satellite TV. Due to the sub-low pay TV fees, new entrants in the TV service market are facing the problem of not being able to grow into a pay TV market while becoming heavily dependent on advertising sales. Considering the limited size of the advertising market, this could result in the gradual weakening of the financial base of both new entrants as well as incumbent TV service providers. For example, the financial conditions (=ad sales revenues) of terrestrial TV service providers including the dominant TV networks (KBS, MBC, SBS) are getting worse.

This comes from two interacting factors. First, terrestrial TV service providers are gradually losing audience shares as competition from newcomers becomes fierce. Secondly, to make matters worse, these newcomers encroach upon the existing advertising sales market rather than creating a new pay TV (the so-called "blue ocean") market.[12]

Such weak financial conditions in the TV service market intense-

11. Cable subscription households in apartment buildings are estimated to be 3.6 million, and subscribers contracted via apartment master networks are mostly paying a dumping price as low as 3,000 won monthly.
12. This became the main rationale for allowing terrestrial TV service providers to extend their broadcasting hours to the daytime from December 2005.

ly affect competition regarding the quality-of-service as well. Competitors try to acquire appealing content at a minimum cost. Conflicts surrounding the re-transmission of terrestrial TV channels can be understood in this context.

Survival Ground for New Broadcast Services: Retransmission of Terrestrial Channels

The retransmission of terrestrial channels has been one of the hottest debates in the last few years in the Korean broadcast service provision market. This conflict constantly recurs when a new broadcast service emerges, for example from cable, to satellite TV, and to the recent DMB. The retransmission of terrestrial TV in Korea started from cable TV. The initial Cable Broadcast Law (article 27) made the simultaneous retransmission of public over-the-air channels (KBS and EBS) obligatory.

The common rationale for this "obligatory retransmission of public broadcasting" policy is to balance the interests of cable TV and terrestrial TV. The introduction of cable TV could harm terrestrial TV by diverting a number of viewers and advertising money away from the latter. In order to mitigate such worries and to assure the coexistence of terrestrial TV and cable TV, the simultaneous retransmission of over-the-air channels on cable television is necessary. This argument, however, fails to explain why the must-carry channels were limited to public TV channels in Korea.

As is well known, the decision to introduce cable TV in Korea was made to appease public opinion that demanded the political reformation of terrestrial TV during the democratization process in the late 1980s (Youn 1999). The government played a pivotal role in introducing and structuring this new medium. The basic policy orientation was to apply strict regulations on virtually every aspect of the structure and operation of cable TV in order to provide the next best public broadcast service after terrestrial TV. The obligation of retransmitting public terrestrial TV channels can be understood better in this context.

It is also difficult to consider the retransmission policy as aimed at the protection of local broadcasts. Until the mid 1980s, the concept of localism in broadcasting was practically non-existent in Korea (Youn et al. 2004). Actually, the introduction of cable TV was the very beginning of localism in Korean broadcasting. Thus, it is likely that the retransmission policy of terrestrial TV in the earlier period of cable TV in Korea was introduced "to promote the publicness" of cable TV, which justified the strictest regulations of the same media.

The retransmission of terrestrial TV became a matter of serious conflict after local broadcasters were established and the distant signal retransmission phenomenon appeared to be a direct threat to them. First, satellite TV realized the possibility of retransmitting terrestrial TV signals in Seoul into local broadcast markets. This possibility brought about sharp conflicts among local broadcasters, satellite TV, and cable long before satellite TV began its service. Another conflict concerning distant signal retransmission was caused by Kyungin Broadcasting, a local broadcast company in Incheon. Unlike other local broadcasters, Kyungin Broadcasting tried to program 100 percent of its original content and expand its signal coverage through cable (= super station).

The KBC in fact did not approve of the retransmission of Kyungin Broadcasting by requiring that cable TV's distant signal retransmission of terrestrial TV signals other than KBS or EBS obtain approval by the Commission. In the case of satellite TV, the issue was also settled as a victory for local broadcasters. In the new policy guidelines announced in July 2004, however, the KBC changed its former conservative positions and introduced epochal deregulatory measures. The major changes include: First, the cable SOs are obliged to retransmit terrestrial TV channels licensed within a franchise area (changing the subject of must-carry stations from "public broadcast channels" to "local broadcast channels"). Second, the retransmission of terrestrial TV signals by satellite TV must be approved on the condition of local into local transmission of all local broadcast channels. Third, for independent local broadcasters that air more than 50 percent of original programming, distant signal retransmission is approved. In sum, by implementing mandatory retransmission of local broadcasts by cable, a rationale was established to permit satellite TV to retransmit terrestrial channels and cable to carry distant signals in return.

The development of the retransmission policy of terrestrial TV in Korea has interesting differences and similarities compared to the case of the United States. In the United States, the retransmission policy has developed to balance localism, one of the most important principles in American broadcast policies, and free market competition principles. As cable TV developed, the distant signal carriage of popular broadcast stations (later developed to be super-stations) at remote places to local markets began naturally. As distant channels drew more local viewers, however, it was gradually perceived as a threat to local broadcasters. Consequently, in the earlier stage of cable TV, the Federal Communications Commission (FCC) banned distant signal carriage. Later, however, the FCC tried to balance localism and market principles by not prohibiting distant signal carriage and at the same time enforcing a must-carry of local broadcast signals to protect the interest of local broadcasters (Youn and Kim 2005).

In the Korean case, the purpose of the retransmission policy was rather vague in the introductory stage. When cable TV was introduced under strict government control, there existed no distant signal carriage phenomena threatening local broadcasters, no principle of localism, and no local broadcasters to be protected under such a principle (Youn, et al. 2004). Under these circumstances, the "enhancement of publicness," which meant regulations of the structure and conduct of cable TV, was adopted as its very principle. For such reasons, the first broadcast retransmission policy of cable TV took the form of a must-carry of public broadcast channels.

As local broadcasters were introduced and the distant signal carriage showed up as a direct threat to them, retransmission has risen as a highly contested issue, as the cases of Kyungin Broadcasting and Skylife have shown. The retransmission policy of Korea is facing constant conflicts each time a new medium emerges (e.g. DMB), and is slowly evolving toward the issue of balancing localism and market principles, as was the case in the United States.

Discussions

Changes in the Korean broadcast service provision market over the last few years can be summed up as advancement from a terrestrial to a multichannel TV situation. However, this implies not merely a quantitative expansion of broadcasts, but a fundamental qualitative change from "concentrating social resources on a small number of channels with universal accessibility to maximize public values" to "the commercial competition of multiple service providers in a market of limited resources."

The analyses contained within this study so far show that in the Korean broadcast service provision market, the belief that the positive functioning of broadcast media can be achieved through market competition without regulatory intervention is far from a reality. In the process of transforming into multimedia and multichannel situations, the public values that were maintained relatively well under terrestrial broadcast structures have not been sufficiently transferred. It can be compared to a broadcast version of so-called Korean "compressed development," where material growth was not paralleled by the cultivation of civic values and systems. This reality is exemplified by the weakened position of terrestrial channels and their shift to entertainment PPs, the problematic low-price system of cable that distorts the broadcast market as a whole, and ever-recurring conflict over the retransmission of terrestrial channels. In such a situation where public policy has not fully adapted itself to the multichannel era, another impact of fundamental change is approaching in the form of broadcast-telecommunication convergence.

In conclusion, rising competition in the broadcast service provision market does not mean that sociocultural policy matters will just fade away. On the contrary, efforts to link competition to desirable sociocultural outcomes should persist. First, elaborate efforts should be made to describe and assess in more detail the level and character of competition in the broadcast market. This calls for theoretical discussions of such analytical concepts as market definition and effective competition in order to apply them adequately to the field of broadcasting. In implementing those concepts, it should be well understood that the ultimate policy objectives of broadcasting lie in not merely enhancing economic outcomes but optimizing the sociocultural ones as well. Not simply a higher competitiveness of broadcasting, but a higher "qualitative" competitiveness should become the objective. If higher competition in the broadcast market results in low priced competition and thus lower quality service, which is the case in Korea, it is obviously an undesirable situation.

Let us take the problems of low-priced pay TV service as an example, and discuss it in more detail. Low fees seem to benefit viewers at first glance, but in fact directly result in the lowered sociocultural values of the broadcast service market as a whole. Therefore, regulatory solutions to normalize pricing and link them to sociocultural objectives (e.g., the revitalization of PPs, improvement of the quality of cable service, and the development of broadcast industries, etc.) are needed. More specifically, the first step towards solving the structural problem of the current pay broadcast market is to prohibit expedient sub-low cable pricing systems such as group subscriptions and to monitor violations. The current sub-low cable pricing prevents subscribers from becoming familiar with the fact that pay TV should have a fair price (considering how much the average Korean spends on mobile phones, the dissatisfaction over cable price hikes seems excessive). By disallowing pay TV services that provide high quality services at a fair price, low priced pay TV becomes a typical case in which "bad money drives good money out of circulation." If this expedient sub-low pricing system is left unresolved, the qualitative competitiveness in the Korean broadcast service provision market will be difficult to achieve.

Of course, it would also be far too naive to argue that the abolition of low price tiers will automatically result in a normalized broadcast provision market. It is only the first and most fundamental pre-

requisite to achieving that goal. The normalization of cable prices must be backed by practical and strict regulatory policies to ensure fair competition between cable and satellite TV, fair fee distribution for PPs, and improvement in PP programming quality. Through such an upward spiral of "pricing normalization → pay TV service quality improvement → and the settling of fair prices" should everything be stabilized.

One of the crucial requisites for achieving such goals is for official channels to be strengthened in the local markets, which will enable cable subscribers to monitor programming and pricing. As a starting point, viewer's committees that are run in each cable SO should be made mandatory.

Close coordination among the policy bodies governing the broadcast market is also necessary. Specifically, the KBC as the sector specific regulatory body over the broadcast industry and the Fair Trade Commission (FTC) as the general governing body for market competition should work closely together to maximize their synergy. Until now, the two bodies have been in conflict over the regulation issues for cable. The recent conflict they have shown regarding the price hike issue of cable SOs is a typical example of such exhaustive confrontation.[13]

In considering competition policies in the broadcast market, another important point is that the actual market situations should be fully considered. To illustrate this, let us go back to the issue of terrestrial TV entering the PP market. Recently, some communication policy researchers argue that the spinning-off of PPs by terrestrial TV needs to be restricted. They consider this move an expansion of the strong dominance of the three terrestrial TV networks into the pay

13. This issue began with the apartment housewives' associations when the major MSOs in the Seoul, Busan, and Gyeongnam areas abolished discounts by changing group subscriptions to individual ones. The associations claim that the SOs raised fees without the consent of the residents, and misused their position by moving popular channels such as sports and drama from the basic to the premium package. The FTC announced in April that the fee in cable monopoly areas are 15% higher (6,642 won) than those in competitive areas (5,787 won).

TV market (Kwon 2005a; Hwang K. 2005a). In this regard, the KBC is considering revising the Broadcasting Law to restrict the additional entrance of terrestrial TVs into the PP market and also restrict the number of terrestrial TV-originated PP channels on cable and satellite TV (Kwon 2006).

However, these arguments and regulatory directions do not seem to fully consider the real situation. "Expansion" implies that the position and influence of terrestrial TV are maintained and expanding into the pay TV market. The actual situation, however, is that terrestrial TV is rapidly shrinking and spinning off of PPs as an alternative means of survival. In this vein, "transition" instead of "expansion" is a more adequate way of describing the nature of the spinning off of PPs by terrestrial TV.

Thus, claims of restricting the entrance of terrestrial TVs into the PP market (e.g. the recent debate over whether to put restrictions on KBS's attempt to launch the Family Channel) are excessively coarse, and in a sense even anachronistic. Considering the weakened position as an independent medium and the decrease in market power of terrestrial TV, its transition into PPs is rather an unavoidable move in the multimedia/multichannel environment. The problem is that this transitional change is too rapid, without having concrete alternatives that can take the place of the previous terrestrial TVs. In this context, restricting terrestrial TVs from entering the PP market is equated with an attempt to block their business diversification efforts for survival.

A more reasonable approach needs to focus on encouraging terrestrial TVs to produce programs with strong public values and retain their general accessibility while accepting business efforts of terrestrial TVs in accordance with market changes. For example, in the process of terrestrial TVs transitioning into PPs, the key concern should be on how to maintain a balance of those channels without completely leaning to commercially oriented channels.

In this context, the retransmission of terrestrial channels is seen as a model case where a policy approach adequately balancing economic and sociocultural factors has been reached. From the mandatory public channel retransmission policy set at the introduction of

cable TV, which was based on the vague principle of public value, it moved into a rather conservative policy stage prohibiting retransmissions when distant signal carriage issues emerged. And recently, it developed into a more elaborate deregulation model that mediates the various interests of terrestrial networks, local TV, cable, and satellite TV.

The issues this paper dealt with (the weakening of terrestrial TVs and their shift to PPs, the sub-low pricing system of the pay TV market, and the retransmission of terrestrial channels) are only some examples of the issues related to changes in the Korean broadcast provision market. As changes in the market will only accelerate, even more confusing and complex policy issues will likely emerge.

One of the propellants for such changes will be that of broadcast-telecommunication convergence. This paper, which focused on the issues emerging in the broadcast service provision market among terrestrial, cable, and satellite TV, left out such issues as the entrance of broadcast media into the telecommunications market and vice-versa. For future research, more comprehensive and detailed analyses are anticipated that deal with competition issues in the Korean broadcast service provision market in light of the issues that are likely to emerge due to this convergence.

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