



# Communications and Digital Committee

## Corrected oral evidence: The future of Channel 4

Tuesday 12 October 2021

2.15 pm

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Members present: Lord Gilbert of Panteg (The Chair); Baroness Bull; Baroness Buscombe; Viscount Colville of Culross; Lord Griffiths of Burry Port; Lord Lipsey; Baroness Rebuck; Lord Stevenson of Balmacara; Baroness Stowell of Beeston; Lord Vaizey of Didcot.

Evidence Session No. 5

Heard in Public

Questions 38 - 42

### Witness

I: Claire Enders, Founder, Enders Analysis.

### USE OF THE TRANSCRIPT

This is a corrected transcript of evidence taken in public and webcast on [www.parliamentlive.tv](http://www.parliamentlive.tv).

## Examination of witness

Claire Enders.

**The Chair:** Claire, thank you very much indeed for joining us. Today's session will be broadcast online and a transcript will be taken. I think you have brought some slides, which you are going to leave with the committee and may refer to. If you do, can you describe them so that people listening can get the gist of the points you are making? Thank you for all the evidence that you have given us hitherto.

Q38 **Baroness Stowell of Beeston:** Hello, Claire. It is nice to see you. Can I start very straightforwardly and ask if you could describe for us what you see as the pros and cons, as it were, of Channel 4 being privatised? As much as you focus on the cons or the risks, how would you see the best way of mitigating those disadvantages?

**Claire Enders:** Thank you so much for allowing me to come and present what wisdom and knowledge I have to you. It is such a great honour for me as an immigrant to do this. I am always filled with awe when I walk these halls.

I have in fact brought the submission in totality, which is here, and there are some data charts within it. There is an enormous amount of detail. I felt that the committee's questions were so specific and that they would really benefit from factual support.

As I have summarised here, Channel 4 is already sustainable as a business. The key benefit of upcoming legislation would be to provide support for Channel 4's longer-term future and, indeed, for the future of all public service broadcasters in this country, through the extension of measures originally designed for the linear age into the online age, in particular prominence on online platforms and so on. That legislation and its accompanying piece of legislation to privatise Channel 4 are very much to be welcomed, since they appear to come as a package. The first way to make Channel 4 and, indeed, public service broadcasting as a whole sustainable, and to meet the needs of this country and its viewers, is to extend all those licences via legislation that addresses the requirements that have been put on the table by the public service broadcasters for the better part of a decade.

The other aspect of positives about the privatisation of Channel 4 is access to an altogether different kind of future—one of much greater ambition than sustainability. Although, to my mind, there is no problem if Channel 4 is never privatised. It will still fulfil all its missions and hit home runs in terms of public perception of being the PSB bar none. There is no necessity to privatise it at all but, if this is the price of legislation, it is an opportunity for Channel 4 to become a completely different kind of greater business; to greatly reduce its dependency on advertising; to develop much more significant partnerships in the world; and to have access to globally relevant technology and partnerships and, indeed, an owner with global scale and access to global capital markets on a scale that is only dimly understood in this country, but is manifest

in the sums that are spent, just in P&L terms, by companies such as Disney, Comcast and Netflix in their annual content budgets. These are ginormous sums.

I have provided a number of examples here, but there are many others. Essentially, all commercial broadcasters today are investing in their own material. They are making it for third parties and consolidating. Why is that? The shape of global IP exploitation has changed beyond measure because of the global streaming businesses, which are not only retaining more of their rights against local exploitation, but directly competing with their customers of old. There is a huge impetus on ownership of IP, which is manifest in the rising share prices of companies that exploit it successfully in digital at scale. There are only a small number of those, and there is a chart at the back that shows how their value has risen.

We are looking at an opportunity for Channel 4 to pass from a relatively troublesome stewardship of the Government, which has only been troublesome for the last 18 months to two years maximum, but is troublesome none the less, into a situation in which it can regain its full editorial independence for the issues of stewardship and ownership of public broadcast assets, which, by their very nature, are provocative, intelligent, interesting and different. Channel 4 has to report a range of things upon which opinions are very controversial or, indeed, opposed. Another benefit for privatisation would be regaining a full level of editorial independence, which has greatly diminished, possibly too much.

How to palliate? In this long debate about privatisation of Channel 4 that I have been familiar with for a generation—25 years—I understand the ideological difficulty of the Government owning a media company that should operate independently at whatever scale. It should do whatever it feels like doing, and whatever is the right thing to do, within a framework that I described this morning to all the chief executives of French broadcasters as permeated with public service broadcasting.

Our milieu in the UK is so permeated with public service broadcasting that, when broadcasters change hands, as Channel 5 did when it was bought by Viacom, or Sky did when it was bought by Comcast, you do not see a reduction in the level of investment. Far from it, you see a galvanising of investment and access to new talent and a blank chequebook. Since it has been acquired by Comcast, Sky has spent several billion pounds on creating new production facilities of its own, investing in original material and now launching Sky Glass, which is one of the biggest product launches the UK has ever seen.

There are a number of unforeseen advantages to privatisation and ownership by another company, and that will palliate some of the issues that could be raised. The economic impact of the privatisation is something that we have seen huge progress in. John Whittingdale mentioned a remit that was going to be strengthened; I have mentioned proposals to do that. I have spoken to the buyers, and some of them are less keen than I am on these proposals—but there you are. I am going to advance them, none the less. The opportunity is also to codify and strengthen Channel 4's remit, make it manifest to any buyer and,

indeed, perhaps make it more manifest to Channel 4, although of course it exceeds all the measures that it is given to perform against anyway.

I have put some proposals to mitigate against perceived privatisation risks on page 2. I mention that against a background in which the Government are in the driving seat in relation to media legislation, its shape and form, the timing of privatisation, and being able to field large numbers of interested parties and exercise quite a bit of leverage over the outcome.

Having spoken to a number of the bidders, I would say there is a 100% buy-in to Channel 4's identity and business model today. The only thing that people stumble over, because they may or may not be vertically integrated, but they do not want to be excluded from being vertically integrated into production, is that publisher-broadcaster model. The terms of trade appear to be acceptable to some more than others; that is something that the Government or Channel 4 will discuss with whoever it is. There are advantages and disadvantages to those terms of trade.

I have put on page 2 a proportion of hours spent compared to the minimum required. There are a number of these. As you can see, Channel 4 exceeds every single one of the requirements that is placed upon it, particularly the regional production spend and regional hours. Those requirements could be completely specified for the buyer. Indeed, at least two of the buyers would be more than happy to have a very specific set of requirements.

I would say more generally that none of the buyers is acting in bad faith. They are all acting in extraordinarily good faith. Everybody understands where the Government want to go with this. Everybody wants Channel 4 and its missions to be safe. I have to say there is an element of gamesmanship there; I do not know whether many broadcasters want to be landed with the missions of Channel 4 at all. As we know, because of the BBC settlement, which hangs in the balance as inflation rages, the BBC is in no position to take on any more obligations. Indeed, it has become home for every single obligation that is very clearly public service, such as S4C and the World Service.

You would find a great willingness to meet the Government's desire, quoting from John Whittingdale, to strengthen the remit. This is a big drift from where we were five years ago, when Channel 4 was going to be privatised as an empty shell to the highest bidder. That moves me on to another point.

**Baroness Stowell of Beeston:** It is probably worth me interjecting just now, because you have covered a whole lot of territory there and I know that my colleagues will want to pick up on some of those themes in later questions. My interpretation of what you have said so far is that it is not necessary to privatise Channel 4 for it to continue to exist and remain viable, but you see opportunity and upside to the prospect of privatisation. You see mitigations around the remit and some specificity in that.

I have one question before we move on to other issues that you have

already started to touch on, and I am sure that colleagues will want to pursue more in their questions. While you are on programmes, where do you see any particular types of programming that are available now on Channel 4 not being delivered if it was in commercial ownership? Might the actual content and programming be affected?

**Claire Enders:** That is a difficult question to answer, and it is even more difficult to say whether it would be a positive or a negative thing for the programming mix to change. I was taught by Paddy Barwise from 1982 onward. Channel 4's birth was celebrated in 1992<sup>1</sup> at London Business School. I can tell you that Channel 4 has changed a very great deal from the way it was 10 years ago, let alone 20 or 30 years ago. It has to change all the time because competition is changing all the time. The competition intensity is in fact increasing all the time.

We are seeing British innovation with programmes such as "Save Me" from Sky. Channel 5 has moved to extend its news services. Sky has shaped Sky Arts as a public service and continued its long-term support for its news services. I see an awful lot of actors in this market that have to be at the highest level of corporate behaviour. It is an extraordinary thing that everyone who buys into our cultural milieu wishes to hit home runs with it. I am also thinking about Warner Bros, which ended up making all of "Harry Potter" here. "Game of Thrones" was made in Northern Ireland.

I adore Channel 4's ethos and have always loved it as it is. I am sure that ethos would change under ownership, but I am not certain that we would be able to tally up any kind of specific hole in the fabric. The advertiser organisations made a detailed submission to the DCMS that I was party to, and they were very specific about really liking advertising on Channel 4 as it is. They would be the first line of resistance if Channel 4 found its income going down, having started to change its mix in any material way away from something that is innovative, fresh and progressive. There are other people in this country who do not believe that progressive portrayals of people with disabilities or females are of any worth whatsoever, but Channel 4, the advertising community and people in this country continue to believe that. As long as they do, Channel 4 will be fresh, innovative and wonderful, whoever owns it.

It would obviously be safer if the status quo continued. I am sure we will find, when DCMS announces the results of the consultation, that it will say that 99% of all people said the status quo was much safer—and I agree with that. However, if we are going to go with some extraordinarily brave vision of the future, and I back that, the Government should not be shy about specifying certain conditions because buyers will accept that and prefer it to being in the dark.

Q39 **Baroness Rebuck:** Thank you, Claire. The way you have positioned this seems to be the nub of the problem. Channel 4 could continue as it is. You do not seem to be talking about a disastrous decline in advertising revenues and all the rest of it. There might be an upside to privatisation,

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<sup>1</sup> Amended by witness: This should be "1982", I misspoke.

but it would require a very strong extra remit to rein in the buyer so that they continued to do everything that you said is good about Channel 4.

My question is about the complexity and interdependence of the creative ecosystem in the UK. Pact calls the publisher-broadcaster model a “genius construct”; at one point in one of your reports, you have called it “inefficiency by design”. It is probably both.

Building a production company from scratch would be extremely expensive but, if Channel 4 was acquired by a broadcaster with production capabilities, one could argue that this might disadvantage the nations and regions of the indie community, which you have already referred to. We have certainly had a lot of submissions from those independent production companies. It would also possibly impede the launch of new production start-ups. We have heard from people who have said, “We felt confident enough to start our company only because Channel 4 was there in its current form”.

Can you comment on the threats that you see to the independent production sector from privatising Channel 4 and how those threats could be mitigated? In particular, how realistic is it to expect this of a private company, which will be driven by return to shareholders? How tight a knot or series of knots would the Government have to put into this remit in order to protect the ecosystem that we currently have?

**Claire Enders:** In our own work and here, we have mentioned specifying a number of companies, the size of those companies, and terms of trade on a geographic basis to cover that. We have really seen no resistance to those proposals at all, so I do not see the problem.

Moreover, it is worth remembering that Pact itself is dominated by companies that are owned by global players. RTL owns Fremantle, Banijay is 30% owned by Vivendi, and ITV Studios spent billions of dollars that it raised on capital markets in order to build itself into a significant production entity in the space of six years. These companies that dominate Pact are arguing to continue to have terms of trade and exemptions that they probably have not needed for a generation. I will not go to the stake to defend the interests of Endemol Shine, thank you very much.

However, the Government can and should—and will, I am sure, after speaking to Ofcom—specify that Channel 4 will continue to trade with small companies and in the nations and regions. As I have said, that is a well-understood feature of Channel 4, and no buyer is going to welch on those requirements. As we have seen with Channel 5, the nebulosity of the public service milieu here is so great that foreign owners throw resource at the UK. Far from taking a penny from companies in Scotland, a buyer is going to double down on Channel 4 and say, “Here’s a billion pounds. Buy every company you want to buy from here to Los Angeles”.

I have given examples in here. This morning, I was talking to the chief executive of TF1 who said that, five years ago, he figured out that linear advertising was looking a bit silly and stiff. It is now looking fantastic with fiscal stimulus; it looks great here with fiscal stimulus—it looks

great anywhere with fiscal stimulus. The reality is that TF1 has built a €400 million business in the space of five years because it must. He described this as confronting Netflix, owning the rights, being able to deal with Disney and being able to sell programmes to the Canadians. That is the kind of thing TF1 is minded to do because ITV showed it was a great success. Everybody is at it for the same reason—to own IP.

I never see the UK as a zero-sum game, not only because, up until the pandemic, the creative economy grew by double digits every year for 20 years. It is also because I am certain that no one would buy Channel 4, a politically delicate asset that the Government has dumped on repeatedly, without wishing it an exceptional future, the very best of futures, and landing programmes made by Channel 4 everywhere.

**Baroness Rebuck:** I love your passion—it is great. You feel that, in private hands, the support for small, independent production companies that Channel 4 is known for compared to other PSBs—you have identified the percentages—would continue, along with the investment in fragile ideas and development, even pre-broadcast.

**Claire Enders:** Absolutely—and, in fact, I am sure that the buyer in question, at least several of them, will be offering that. I promise you that you do not even have to pull their teeth.

May I point out that Comcast offered the remedy on Sky News without being forced to? I simply said to the nice CFO, “Don’t make a fuss. This is so obvious. Please give it”, and so they will. Look at Channel 5 and Sky. Are these organisations operating against the public interest?

**Baroness Rebuck:** No. You have made very good points in relation to those two.

**Claire Enders:** Buyers will be forced to agree to operate Channel 4 pretty much as is.

**Baroness Rebuck:** I am going to move off this because I hear your point very clearly there. I have my doubts, but none the less I hear what you are saying.

If Channel 4 is privatised, how should the proceeds be spent? Is there an argument for a fund for public service content to mitigate any reluctance, which you do not think will be there, but might be, in a profit-oriented entity, in response to shareholder requirements?

**Claire Enders:** I have an even better proposal, which is to make a number of Channel 4’s trading commitments ubiquitous among the public service broadcasters—that is, universally applied via Ofcom’s new legislation, which looks at those issues of Britishness as well as public service media content. I would like to see those requirements and the terms of trade, such as they are in this country, applied to Netflix. If we cannot do that, Channel 5, ITV and STV are all manning the barricades to build the future of independent production in this country. It does not rest alone on Channel 4’s shoulders, valiant though that organisation is.

How should we spend the money? There are many better people than I to answer that question. We have been through many difficult times. The

money should be spent on those core feeder networks, support through these difficult years ahead of the Edinburgh Fringe, and colleges with bursaries that turn out great graduates. If you talk to any of these organisations, they all say, "We have an incredible shortage of talent".

**Baroness Rebuck:** In other words, put it into the creative ecosystem in a different way.

**Claire Enders:** Absolutely, yes, but the feeder networks have been really starved of talent, particularly where there is all this performance and innovation. There is no end of good places for DCMS to spend its money.

**The Chair:** Your responses have triggered a number of questions from members of the committee, which I want to take. We would appreciate it if you kept your responses reasonably brief. Then we can pick your brains on a number of issues.

Q40 **Lord Stevenson of Balmacara:** I wanted to take it back to the ownership question, which you were dealing with early on in your presentation. You said at one point, and I quote you, that editorial independence at Channel 4 has been diminished in recent years. I wonder if you can just flesh that out for us. I am a bit shaken by that thought, but could you explain?

**Claire Enders:** There has been a lot of criticism, and you can take it as you like. A misunderstanding of Channel 4's positioning of an ice sculpture in a specific debate before the election seems to bubble up at every single turn and is mentioned time and again. That was completely overblown and has ended up feeling intimidating. It has certainly felt intimidating to people who understand that Channel 4 is there to provoke and to make people laugh, and that politics is funny. It is for those of us who are not practitioners. I can promise you that it sometimes is, although you will see that I have tremendous faith in what Ministers say in public about strengthening remits. In fact, I have rock-solid faith.

**Lord Stevenson of Balmacara:** It is that oblique comment from a position of ownership.

**Claire Enders:** It has been worse than that. The chairman of Channel 4 is behind me. You can ask him, but I am led to believe that people at Channel 4 are not allowed to tweet politics. Remarks made by Dorothy Byrne in Edinburgh, which I would never have made but were her own preserve to make, were perhaps blown out of all proportion. You have seen a number of actions at Channel 4 in that regard. I am not saying I can see it in the reporting. I can say that, if you do not let anybody in your organisation or your journalists tweet, that seems to me to be a difference between them and all the people who work for the newspapers, who are encouraged to tweet away.

**Lord Stevenson of Balmacara:** I hear what you say and understand where you are coming from, but are there no other models of ownership that would get you around that? For instance, it could be a trust or a

charity, not even a royal charter, but something that is separate from government, removes that incestuous link and gives the independence and ability to create outside that.

**Claire Enders:** That is certainly an option. The Government have all the levers; they can certainly do that. Let me put it this way: that would very severely curtail the kind of global development that I was talking about, which would be good for UK plc and might be good for all of us, but it is certainly an option for the Government to consider if they see fit.

Q41 **Viscount Colville of Culross:** You talked about codifying the remit of Channel 4. In your report, you pointed out that the remit at the moment is deliberately fuzzy. It talks about innovation, diversity, educational programmes and a distinctive nature. Channel 4 says that that vagueness is absolutely essential for the ethos of the channel. How would you codify the remit without losing that subjectivity that the present remit allows?

**Claire Enders:** That is something that Dame Melanie Dawes is going to take on. When I last spoke to her, she did not seem to think it was going to be impossible. She was going to give it her best shot.

Everybody should understand how important that remit is to the value of Channel 4: not only the buyer, but the Channel 4 management team who would be part of the transition, the Government and now DCMS. We have had enormous movement in the understanding of the value of this remit. The advertiser community is as vigilant as ever.

As I said on page 2, a number of areas could already be laid down in stone. I am particularly keen on the regional production spend and regional hours that Channel 4 is required to do at 35% of its total, which exceed 58% and 47%. We could say 50% for those things. As soon as you start to specify these things, people understand.

Every actor wishes to have the blessing of the regulator in this country. That is not true of every industry, but it is true of this one. I do not know why that is. Maybe we are all terrified of the Government. I do not know, but everybody is incredibly good about everything and hits home runs on top.

This is not an impossible task. Because the buyer would keep most of the people at Channel 4, the entire creative teams would be kept and so on, I believe there would be a very slow transition, not least because Channel 4 is entirely reliant on this ongoing manifestation of its brilliant culture. It would have to last through a transition and keep its value. The management team would have to be incentivised to do that. It is a very tricky transition, which is why the status quo is less dangerous than that, but it can be done. I am sure that Dame Melanie Dawes will do a great job, and DCMS is, after all, going to be working on the legislation.

If you assume that people are always acting in good faith, particularly when they invest in the UK broadcast and video sectors, you will rapidly find that getting people to hit home runs by being nebulous may be what

the next stage of Ofcom is really about. Public service media is an even more nebulous option, and we are all going to try even harder.

**The Chair:** You are very positive. Your response is a positive response. You think it is doable.

Q42 **Lord Vaizey of Didcot:** We love Dame Melanie Dawes on this committee, just so you know. I feel like my head is about to explode. I have spent 15 years trying to keep up with you, Claire, and I clearly still cannot do it, but I am going to try. I am going to ask a philosophical question, and then a process question.

It seems to me that the thrust of your evidence is that we should not fear Channel 4 privatisation because nothing about Channel 4 will change. What is the point of privatising Channel 4 unless it changes? Related to that, I agree with you that Sky and, indeed, Viacom and Channel 5 have a lot of public service-style broadcasting. Would you accept that that is because Channel 4 is part of that ecosystem and, if a privatised Channel 4 becomes subsumed as part of a larger US media thing, it will be a bit like Jenga? A vital part of the building block will be taken out and the structure will start to totter. That is my philosophical question. It is probably completely incoherent.

**Claire Enders:** You are absolutely right that the status quo is a better option for a whole lot of reasons, including the fact that the existing trading systems are very well established. I am talking about advertising and programme making. The structure of everything is well understood. You would have to be very ambitious and hopeful, and say, "I'm looking around the planet and I don't see another commercial broadcaster that's not allowed to own its IP, isn't vertically integrated, isn't building this and that out, but is still running this other business".

Those lovely people in Argentina are still running a broadcast business in Argentina. These are the people that Viacom bought, but Viacom also gave them \$500 million to build out Viacom International Studios, which supplies broadcasters from Argentina to Mexico with Spanish-language material. All of it has become bigger than the broadcaster in the space of five years because it wrote a big enough cheque, and the companies were there to buy.

We can still have the Channel 4 we know and love, but if that entity and that gifted management—after all, Alex Mahon used to run Shine—were given a huge amount more to do, just like the lovely people at Sky or Viacom, they would do that. I just do not see any bar to British talent. I do not think, "Oh my god, they'd forget about the small people who need to be looked after north of Leeds". They would not. They would just be building out a new business.

**Lord Vaizey of Didcot:** I have a lot of sympathy with that argument. I do not want to take up too much time. Why do you not advocate a management buy-out?

**Claire Enders:** That is not the right place to go because the capital markets are favouring larger and larger entities. I am afraid that if Sky,

which is an £11 billion business in the UK, had a better future with Comcast, believe you me, Channel 4 has a better future with a giant entity. I am not saying it would be a better one than today, but it would certainly be one with more optionality. It does not need to be privatised, but it could be fantastic.

**Lord Vaizey of Didcot:** Yes, it is about having access to capital and technology. This is my boring process question. How much regulatory stuff do the Government have to get done before they can sell Channel 4, such as sorting out the public service broadcast review, advertising minutage and advertising restrictions?

**Claire Enders:** The legislation is required because prominence for Channel 4 in the online platforms is necessary for its value to be sustained and for the public's access to Channel 4 to be sustained come what may. After all, as you well know, the Samsungs of this world are auctioning to the highest bidder, so those are valuable slots, and Channel 4 absolutely needs to have that. Being a public service broadcaster that is part of the future of public service broadcasting is assistive to every single part of the system. The best way to sustain Channel 4 is to have this dialogue about privatisation, if that is the dialogue the Government want to have.

My understanding from Dame Melanie Dawes is that she is cracking on at great speed and the relevant legislation around that framework would take at least until next September. The separate privatisation Bill for Channel 4, which would contain this remit and these things, would have to be a second track that could reach fruition around that time. She would want to prioritise it in order to get it done before another election. She also said, to me anyway, that she felt, if it were not done before the next election for whatever reason, it would remain in the Government's agenda.

**Lord Vaizey of Didcot:** Who said that to you?

**Claire Enders:** Dame Melanie Dawes.

**Lord Vaizey of Didcot:** She also has the Online Safety Bill to do.

**Claire Enders:** She is busy.

**Lord Vaizey of Didcot:** Talk about giving a busy person a lot of things to do.

**The Chair:** Are there any further questions?

**Lord Vaizey of Didcot:** I am exhausted.

**The Chair:** You have exhausted Ed Vaizey, which takes some doing. There are lots of positives and upbeat noises. Claire Enders, thank you very much indeed, as always, for your time, and for the wider data and information you have regularly provided to this committee, which has been very useful.