HOUSE OF LORDS

Revised transcript of evidence taken before

**The Select Committee on Communications**

Inquiry on

# THE SUSTAINABILITY OF CHANNEL 4

*Evidence Session No. 1* *Heard in Public* *Questions 1 - 21*

TUESDAY 12 APRIL 2016

3.30 pm

Witnesses: Claire Enders

Dr Steve Unger and Gareth Barr

USE OF THE TRANSCRIPT

1. This is a corrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.

Members present

Lord Best (Chairman)
Earl of Arran
Baroness Benjamin
Baroness Bonham-Carter of Yarnbury
Lord Hart of Chilton
Baroness Healy of Primrose Hill
Baroness Kidron
Lord Sherbourne of Didsbury

**Examination of Witness**

**Claire Enders**, Founder, Enders Analysis

**Q1 The Chairman**: Good afternoon. I welcome Claire Enders in joining us. It is great to have you. Thank you very much for coming once again before this Committee. You are a real stalwart, and you always bring insights to us that are extremely important. We have the little protocol that in an inquiry of this kind people declare their personal interests, if they have any, as soon as the meeting becomes public, which is it now does. I have to declare that one of my sons is a presenter for the Channel Four group on 4Music.

**Baroness Kidron**: I have to declare that I am a director of Cross Street Films, a small company that delivers media projects, including film and television. We work with many UK broadcasters, including Film4, which is owned and operated by Channel Four.

**The Chairman**: So there we are. There are no other declarations of interest. Claire, would you kindly introduce yourself very briefly? Most of us know you extremely well, but please tell us who you are, and if you want to give us an opening statement on the subject before us, the future of Channel 4, please say a few words.

***Claire Enders***: Thank you Lord Best, and I thank you and the Committee for having me here today. I am an immigrant here in the UK. I am solely British. I came to this country in 1981, a year before Channel 4 began to broadcast, and I have been a full-time media analyst every day since—so for many years. I came to London in order to go to the London Business School, and I am thought of as the leading media analyst in the UK. My company, Enders Analysis, supplies our work, inter alia, to the DCMS, to the Treasury—to all of you, I hope—and I shall make sure to put you on distribution, Lord Best, if you would like our work. I may be able to organise that, and I would be most happy to do so. I am a lifelong observer of all the extraordinary phenomena in the UK. I probably know more than anyone else about the advertising business, the pay TV business, how the production sector works and, in fact, how all the internet models work. Our work is taken by companies, from Google to ITV to BT. We have 10,000 readers, and I am extremely proud of the work that we do. We are not advocates; we are an independent research company. As a result, our work is public. Obviously, my name is on the masthead, and I can assure you that we do it with the utmost dedication and British genius.

We have circulated to Lord Best and to the Committee three reports that we have written, which I have copies of here today and which encapsulate answers to many of the questions that are before the Committee. I urge anyone who has not read those to do so. Many of the issues that the Government are considering—to my mind, absolutely rightly at this stage—and that you will also consider at this stage, absolutely rightly, are very complex phenomena that have to do with the operation of advertising markets, trends, changes in consumption and how they affect different groups. As a result, superficial and easy answers are absolutely to be avoided in something that has had and will continue to have the extraordinary impact on society that Channel 4 has had pretty much since its inception.

**Lord Sherbourne of Didsbury**: Before I come to my question, how do you define "sustainable"?

***Claire Enders***: I define sustainability as financial sustainability. I run a business that is one of the top 100 businesses ever started by a woman in this country, and there are no prizes for guessing why that is: it is not because I am a genius but because it is very hard for women to start businesses. I know exactly what it feels like to be in a sustainable business, because I plot and plan one every day. To my mind, financial sustainability is the key to Channel 4, and Channel 4 has more sustainability than many other businesses, primarily because it has almost £250 million of reserves and a number of assets, including its licence, which goes to the end of 2024. It even has a borrowing facility that it could use, and it has a range of assets, such as its headquarters, which it could easily sell in a crunch. So although the debate on the financial sustainability of Channel 4 was the initial touch paper for a lot of different questions arising out of its operations and how the management has operated the business over the last five years in particular, there is no doubt at all—even David Elstein, my nemesis, has accepted this—that Channel 4 is sustainable. In fact, it is more sustainable than most other businesses that we know of. It is more sustainable than Channel 5—and more sustainable than the BBC, with its five-year settlement for instance. It is more sustainable than most other businesses, with the possible exception of ITV.

**Lord Sherbourne of Didsbury**: And you are confident that it is sustainable over as long a period as 10 years?

***Claire Enders***: Its licence goes to 2024, and we have done the forecasts on the basis of that current licence term. Yes, I am absolutely certain that it is financially sustainable. There are two provisos to that, which I will highlight, because they will affect the whole sector. If there is a Brexit, GDP declines will directly affect the advertising economy as well as the film and television industry. It will have a very damaging impact on those, and it will take some time to recover. Of all the businesses in our fold—in other words, in my spectrum—the business that will find it the easiest to survive, say, a 5% drop in advertising income, which could occur in 2017, a 2% drop in GDP at the minimum, or a drop up to 10%, would be Channel 4. However, I cannot hide the fact that that issue as a whole for advertising is very significant, and I can certainly send you some more details if you want.

The other thing is financial Armageddon. We had experience in 2008 of a major crisis. TV advertising income went down by 25% in 2009, as you will well remember. That caused a lot of questions to arise out of Channel 4. I have been an analyst of Channel 4 in particular and all the other businesses for a very long time, and many of the issues that arose in 2009 about the sustainability of Channel 4 were caused by the prior management's egregious investment strategy outside television. Between 2000 and 2010, previous managements wasted about £300 million. This management has not wasted a dime. So Channel 4 faces a very different picture today. It is very much more sustainable than it was in 2009, for sure.

**Q2 Lord Sherbourne of Didsbury**: Leaving aside those two provisos—let us assume that neither of those two things happen, so all things being equal over the next 10 years—are you absolutely confident that there would be sufficient advertising revenue for Channel 4 to sustain it?

***Claire Enders***: I am absolutely certain.

**Lord Sherbourne of Didsbury**: Because?

***Claire Enders***: Because if there is not, there will be a problem for ITV, Sky, the entire multichannel universe, way before there is for Channel 4, and we might as well write off the whole sector.

**Lord Sherbourne of Didsbury**: You realise that if there is not, there is a problem for everybody, but why do you think there will not be a problem? Do you think there is sufficient advertising revenue for Channel 4 over the next 10 years?

***Claire Enders***: I am absolutely certain. I am afraid that the stock market is not always wrong, and ITV would not be worth north of £10 billion with, let us face it, an average ITV1 viewer of age 63 if that were not the case. If you want to read our work very carefully, and if you would allow me to spend time with you to explain the advertising economy to you, I would be delighted to provide that. I just want to state for you that the current turnover of the entire TV sector is about £12.6 billion, of which only £1.6 billion is online video, £5 billion is TV advertising and another £5 billion is pay TV. These are vast sectors, and I am afraid that, 10 years after YouTube was launched, no one believes that online video is going to eat this lunch. The fact is that online offers three-minute videos, and since 2005 we have seen the rise of the golden age of television: the 10-hour movie, the six-hour series on iPlayer or the 10, 20 or 30-hour series on Netflix. There are countervailing forces all the time. If you believe that the habits of 16 to 24 year-olds dictate the entire future, I am afraid to say that there is no historical evidence of that. The 16 to 24s have always had more change in their viewing habits, have always watched less television and have spent more time together, usually carousing. That has been true for every generation. So the fact that 16 to 24s have experienced, for instance, a 31% drop in their TV viewing since the Paralympics in 2012, when a lot of young people watched an awful lot of linear television, is of no concern for any reason. The age of peak of consumption in this country is 43. The entire phenomenon of television advertising is there to push very conventional phenomena. Most people from the age of 25 onwards are actually watching more linear television—in other words, much less online rubbish.

It may be that on the back of an envelope you can wish away a 100 year-old industry, but it exists and pulses every day in an extraordinary phenomenology, of which online is but a very small part. Over the course of 20 years of online phenomena—since 1995 to the present—all the advertising has, broadly speaking, continued to grow at a 3% average growth rate through every single one of these terrifying David and Goliath themes, such as the end of TV advertising, the end of pay TV, the end of this and that. I can assure you that this phenomenology is such that the DCMS is absolutely right to extend the licence of ITV and Channel 4 to 2024 on the basis of their spectrum occupancy. That is more economically sensible than any other use. I hope that is helpful.

**Q3 Baroness Kidron**: I will pick up on your opinion on some alternatives, but before I do, could you give us your view on the pros and cons of privatisation? The Secretary of State, Lord Grade and various big guns have been quite clear that they think this is the way forward—deep pockets, et cetera.

***Claire Enders***: I am not entirely sure that John Whittingdale has come to a settled view. At least yesterday evening he assured me that he had not. Let us hope that his mind is still open. I proceed from perhaps a completely different perspective from politicians. I see Channel 4, born in 1982, as something that has changed our society for the better. Attitudes towards disabled people, BAME audiences and women have changed. This is a constant force for the good and it is recognised in that way. You see the statements from the public: close to 50% believe that Channel 4 takes risks that other channels do not, makes programmes that other programmes will not, and offers options that are not available by any other means. These are the things that matter the most to me. Channel 4 is a completely sustainable business, like the BBC, not requiring a drop of government money and doing endless amounts of good. So I start from the proposition: what would our society be like without this, and is it worth a couple of billion going to reduce a debt that has just passed £1.55 trillion? You therefore have to convince me that the 20 million people who visit Channel 4 every day are somehow of no note compared to this £1.55 trillion and reducing it by an infinitesimal amount. Therefore I proceed from the counterfactual: what would our society be like without Channel 4?

On the question of Channel 4's remit were it to be privatised—I am talking about the programming remit, not so much the financial remit, which is not as important—I encourage Channel 4 to make profits every day of the week. The more profits it makes, the more the business is worth to us the taxpayer, because the profits are put into reserves, which they have been for some time. I am very sorry that the previous management wasted £300 million of it, as that is our money that has gone. I believe, and I say this in a very heartfelt way, that for Channel 4 to be privatised it would have to have a more glorious future, and it is quite an extraordinary thing to have to prove that some owner is better than the public as an owner. It may be that this Government do not wish to own broadcasting assets at all and wish to reduce by an infinitesimal amount—less than half a percent, perhaps—our multi-trillion pound debt, but in order to make those judgments they have to show in some way that the outcome will be better, and that will be a steep hill to climb. The market impact of Channel 4 is so marked, and it is marked in the regions. In Scotland, Channel 4 trades with businesses that have no other trading partner, and you have to remember that this is set against the background of the Government's decision effectively to reduce the BBC licence fee by 35%, which is the biggest cut that any public service broadcaster has ever experienced in any country.

**Baroness Kidron**: So in the world of Claire Enders there is no pro, just cons. I understand your point, and I am not saying whether I agree with it or not. I am just curious, because the argument is being made that it would have deeper pockets and that it would be able to withstand these potential threats, which you yourself have outlined, were it to be privatised. You are saying that actually—

***Claire Enders***: Baroness Kidron, the business that will be most impacted by Brexit or a financial Armageddon is ITV. It will take it in the stomach before Channel 4. Being a publicly owned company is actually quite a vulnerable place to be. Belonging to a giant global corporation, which might completely forget about the UK tomorrow because its interests have moved to, say, China, is not a good place for a public good. All I am saying, Baroness Kidron, is that our public goods have to be safeguarded—and yes, there may be a better option. There may be a situation in which Channel 4 has all the public impacts that it continues to have, the regional impacts outside the M25, with distinctive audiences of its own, and so on, and there is a privatisation option, but I do not see it now. If it comes about, I am sure I will support it—I really will.

**Q4 Baroness Kidron**: Can I ask you very briefly about the other options that have been put forward and how you see Lord Burns's suggestion and the suggestion in the Ofcom review of 2015 to extend the PSB remit to all parts of Channel 4, and whether that makes it a greater force for good, which I think were your words earlier? Can you tell us a little about the other options that are on the table?

***Claire Enders***: But the other options are not on the table—mutualisation is not on the table.

**Baroness Kidron**: My question is: should they be?

***Claire Enders***: I just do not think that that is where we are in the dialogue. I say this as someone who has taken the words "public service broadcasting" very much to heart, since it was one of my core motivations for becoming British. This is a better democracy for it. The fact of the matter is that the extension of public service broadcasting principles were taken through the 2003 and 2010 legislation, and I believe in those. I am sorry, but there is more of a risk that they will be narrowed. I would hope that we would preserve the ethos, and, of course, on a more upcoming issue—the governance of the BBC—I hope that Ofcom will continue to take the public interest as its paramount concern, the public interest being us. We are in a situation where the Government have come to realise through the BBC consultation how many organisations and people in this country hold public service broadcasting very close to their hearts. That will be helpful in the development of their own debate, but we live in wait of something called the Digital Economy Act, which may try to roll back that broad PSB definition, which has brought only good.

**Baroness Kidron**: Finally, just to press you on this one point about extending the PSB to the entire portfolio, would that extension therefore be protective of Channel 4?

***Claire Enders***: No, I do not think so. Right where we are today, Channel 4 uses a very well understood model, and it has slightly more or very commercial ends to its schedule, which basically support the risk-taking, smaller audience programmes that find audiences that are unique to Channel 4. So if anything I would say that the current situation is that perhaps

Channel 4 has its own flexibility in its model. For instance, it increased the amount it spends on external commissions in a down year to try to make up for the BBC losses in the regions. It has a lot of flexibility in its model.

**The Chairman**: I am afraid that we will have to go slightly faster. We come to Question 3 and Baroness Healy.

**Q5 Baroness Healy of Primrose Hill**: I argue strongly against privatisation and I accept your arguments, which you have put so clearly. The Government could be desperate for money; they have had to cut back on the welfare cuts they wanted to make to tax credits. If Channel 4 were to be sold, what would you estimate its value to be to the Treasury, and how would you arrive at that figure?

***Claire Enders***: In order to avoid a lengthy reply, I would much rather send you a written reply, if I may. The fact of the matter is that today, with a licence that ends in 2024 and no certainty of renewal, and broadly speaking with some flexibility in the remit—requiring primary legislation, may I just point out—and privatising the business at the end of 2017, with only seven years to go on a sinking licence, you would be very pressed to get more than £1.5 billion. You would have to expect the buyer to be slightly fooled: that is, an American buyer who thinks that the Brits are cool and the licence will be extended, as it were, pari passu. I doubt that very many people will believe that from a Government who constantly throw into the air some of the most treasured public institutions that we know.

**Q6 Lord Hart of Chilton**: How could various changes in technology and viewing habits affect Channel 4, and how do the opportunities weigh up against the threats?

***Claire Enders***: I gave a speech this morning at the *FT* digital media conference at which I asserted that British broadcasters were in such a strong position compared to US broadcasters. TV advertising in the US is generally trending down, although obviously not this year with the election Olympics, as is pay TV penetration, but it is interesting that British broadcasters are constantly ahead of the curve: the BBC invented the iPlayer early on, launching it in 2006, and Channel 4 was the first broadcaster to be into developing a whole digital platform, so it has over 10 million people registered. All the US broadcasters basically put themselves at the mercy of YouTube and Google, and our broadcasters said, "No, we're going to build our own platforms, own our own data and proselytise our own thing". As a result, Channel 4 is getting an increasing amount of revenue from online digital video, as indeed is ITV. These are catch-up phenomena that give people extraordinarily good opportunities not to miss things of value, and that is true on iPlayer and on the Channel 4 site. Channel 4 is the first broadcaster in the

UK to introduce programmatic advertising, so it is vying with YouTube directly on a programmatic platform.

Channel 4, like the BBC, has the benefit as a pure PSB of being very innovative and flexible, of not looking at returns for shareholders and saying, "It's not this year that we put our all into developing a new platform for our viewers". Channel 4 has reached out on every device. The only business that has done as well as Channel 4—and they are very similar in some ways in their innovation—is Sky. Sky is the perfect poster player for reaching out on every screen, extending the value of each one of the rights it buys across every screen. As a result, that has greatly sustained the model. Its people have welcomed tablets and smartphones into their lives. Essentially, the impact of this is to give people personal, portable and mobile choices that they did not have before, and that extends the viewing of our long material, whether it is on the BBC, Amazon or Channel 4. So I would say that Channel 4 is way ahead of the curve in adapting to technological change in the proliferation of devices and platforms, and that is true generally of UK broadcasters. It is an area where we have excelled.

**Lord Hart of Chilton**: Where might the threats come from?

***Claire Enders***: There are no significant threats when you think about one thing, which is that YouTube is now 11 years old and occupies around 60% of all online video time in the UK. That, roughly speaking, is about 4% of all viewing time, so it is not as big as you think it is, but it is big. But basically you do not have an opportunity for YouTube to make £1 million or £3 million an hour. Even 11 years on, it is not the right model for creators. The average amount that Zoella, who is a very famous YouTube star, can spend on her programmes is £30,000, and I can assure you that that does not amount to a hill of beans in TV terms, when you think that "The Night Manager" cost £3 million to make. Therefore we are seeing an extraordinary renaissance, or a 10-year extraordinary fusion, which has been driven by global demand for our long drama without adverts. So British television, which is very light on adverts—and in the case of the BBC has no adverts—is finding its global place now as never before.

Therefore there are many countervailing trends. You may recall, Lord Hart, that people once said that everyone would lean forward and watch on a PC. That was in the early 2000s, and you may recall why that changed. The TV manufacturers came out with televisions that looked and sounded like cinema screens, and suddenly everyone bought one of those. By the way, in the households, or hovels, of the young, you will find that by the age of 25 they are clubbing together to get one of these monsters. They are moving away from watching as individuals, hunched over like gorillas on their little laptops, to sharing the space. By the age of 25, in a very high-employment country such as this one, unlike others, you are getting people with very little time to watch. They go to work every day and will clock into phenomenal quality stuff. This is a very long answer, but all I can tell you is that British broadcasters really know their stuff.

**Q7 Baroness Benjamin**: In their last review of Channel 4's statement of media content, Ofcom said, "We will continue to monitor closely C4C's performance in … key areas", such as content, reach and share, diversity and content for older children and young adults. You may be aware that some commentators have strongly stated that Channel 4 is not spending enough on content for older children and some core public service broadcasting genres such as the arts. What assessment have you made of this criticism, and where could Channel 4 do better in some of the other areas that I mentioned, especially diversity?

***Claire Enders***: I am always in favour of more opera on the box, but there are also many other ways to get material. I rely very heavily on Ofcom's assessments of Channel 4. There is a mass of data and, again, an area of great complexity is how Channel 4 goes about meeting its remit, which is very subtle and complex. What matters to me more is that the research commissioned by Ofcom on Channel 4 said that it is hitting stuff in the right direction. The fact that it never gets there is basically the challenge of every day. So I am really not in a position to say that Channel 4 is letting me down.

**Baroness Benjamin**: So you do not feel that the fact that it is not spending enough on children and older children is a problem.

***Claire Enders***: I guess my view is simply that once we have the Paralympics on, that will be enough to reach all those audiences. Very few events can reach all those audiences together, and the Paralympics is probably the most significant one that will come around. Channel 4 always has an extraordinary struggle, because in effect if you are tasked to meet minority audiences, you are bound to fail on the ratings area. It is quite a finely tuned model to get enough commercial income to continue to be able to provide minority programmes. I am sure that Channel 4 understands that it always has to improve and, indeed, it announces new initiatives: it announced a 360° initiative to increase diversity on screen—that is a very valuable and important thing to do, and if Channel 4 was not doing it I would be somewhat surprised. I am glad that they are going back on to that.

**Baroness Benjamin**: I really want to focus on children and young people. You do not feel that the channels, such as Channel 4, should have output and content for some of our citizens, because it is a public service channel. Children, especially older children, are being served by almost no channel in the country. You do not think that Channel 4 should be focusing on this. You can use that as part of diversity, if you want to look at it that way.

***Claire Enders***: Sure, it is. But diversity in this country also has to mean non-white and non-male, so it is a very broad topic. I have to say that my understanding of the audience share of Channel 4 does not indicate that it is completely letting these groups down. I am sorry. It may not be reaching the target that Ofcom wants of hundreds of thousands of viewers, but it is definitely not not serving them, if I may put it that way. I would rather, if you want, give you a document that outlines how it does on older children and—what was the other group?

**Baroness Benjamin**: Young children. The BBC go up to 12 year-olds, and a lot of people are looking to Channel 4 to serve the 12 to 16 year-olds, because there is nowhere for them to go. It is in Channel 4's remit to serve those older children and young people. I was just asking you whether you feel that it should have content and output for that bracket, or whether you think it is not necessary.

***Claire Enders***: I absolutely believe that it is necessary, but I doubt any view that it is not serving these audiences at all today. That is simply not possible, and I will give you the data on that. You might think about programmes such as "Skins", which were aimed directly at that demographic—or the Paralympics, which were not directly aimed at all of us, I hope. I think about 40 million people watched it in 2012, and I would hope that we would get there again.

*The Committee suspended for a Division in the House*.

**Q8 The Chairman**: Claire, we apologise for the fact the parliamentary process goes on even while we are doing important business. We are in the middle of our questions, and I want to ask about the slightly technical phenomenon of the impact of vertical integration. In the industry, networks are buying up content creators and are doing more in-house production. Channel 4, of course, does no in-house production and, post-privatisation, David Abraham thinks that the spending on the UK indies might fall dramatically if people do the whole job themselves. Do you feel that this phenomenon of vertical integration could have an impact on Channel 4, and is Channel 4 constrained by not being able to keep more of the IP rights from the programmes in commission?

***Claire Enders***: I do not think it is a big issue for Channel 4. To go back to the points that I made to Lord Sherbourne, owning more rights—owning rights currently produces around £75 million a year for Channel 4—might increase the amount of income that they make, so I do not think that ownership of more rights is necessary for Channel 4 to be sustainable. The corollary, again, is the 250 companies that are only commissioned by Channel 4, and potentially by the BBC, and how life would be for those companies. Clearly, the fact that Channel 4 operates terms of trade has been extraordinarily assistive to the growth of a massive sector that did not exist in 1984, which is the non-vertically integrated part of our industry: the 1,600 companies distributed across the land that produce independent programming for all the broadcasters, Sky and the multichannels. The emergence of a vast group of viable and sustainable companies is entirely down to this model. Certainly when I arrived in the UK and started to look at these issues, which I did somewhat quickly, the level of vertical integration at the BBC and ITV was absolute. They did not address many audiences either, certainly nothing other than white males on a good day. So the impact of Channel 4 on this extraordinary phenomenon cannot be dismissed.

The other incredible thing about that phenomenon is the professionalisation. As we know, it took 20 years for the companies that Channel 4 commissions to start producing programmes that could be very successfully exported. Now, Channel 4 programmes originated with Channel 4 are very widely sold around the world by their producers, who have become significant companies and can take more risk. It is not something I would change unless you were privatising the business, because it has such incredible value for the regions, small companies and Channel 4's ability to reach it remit, and I do not think it would be able to do that any other way. Channel 4 might be more attractive if it owned more IP, but it already owns quite a bit of IP and has in fact negotiated with Ofcom to own a bit more. It is not damaging the independent production industry at all for Channel 4 to own a bit more IP and for it to produce £75 million of income last year in programme sales. So it is not something that you should consider doing anything about.

Certainly, if there was a privatisation without any remit, the minimum drop on UK indies would be £200 million, because in effect the new owner would vertically integrate. We have seen that happen extensively with Channel 5. There is no reason why an NBCU or any other business would not have every desire to turf out the very complex system of hundreds and hundreds of suppliers that Channel 4 operates so that it is transparent and fair. It is not a system that you would find anywhere outside pure public service broadcasting; it is a real cost.

**The Chairman**: That is very helpful. Thank you.

**Q9 Baroness Bonham-Carter of Yarnbury**: When we started thinking about doing this, the idea that Channel 4 would be of interest seemed surprising, if it was keeping its remit. What you said at the beginning of this evidence session slightly concerned me: that Channel 4 is ahead of the game in so many areas—our specialist adviser pointed out that the Grand National got an enormous number of viewers—so maybe it is more attractive than I had thought. Who do you think the likely buyers would be if Channel 4 were to be privatised?

***Claire Enders***: If you were going to proceed down the route of introducing primary legislation that substantially altered the remit, there would be many, many takers. We have already mentioned vertical integration and IP ownership, the flexibility of the model, the flexibility to make profits, and the flexibility to trade outside small companies and so on, not meeting a minority remit. All these, most particularly an extension of the licence to 2030, would make this business of £2.5 billion or £3 billion significantly attractive. The kinds of companies that would be interested would be American companies. We have seen every company, including Vivendi and even Bertelsmann, express an interest in Channel 4. I think people see it as a very innovative business; *Marketing Week* gave it its prize for the most innovative marketing business. People see it as very cutting edge and very valuable. It would be an American company that bought it; Viacom bought Channel 5, Discovery bought all three media. We have a very high level of interest, which has been a very good thing. If you think about it in numbers terms, you will rapidly see that the amount invested by American global giants in the UK since 2010 is of the order of £10 billion to £15 billion of inward investment in our film and television industry, which is a very good thing. We have those advantages without having to sell the family silver, because we are part of Europe and because there is an inexhaustible supply of British creativity, craft, acting, script writing. We even create the books and export them. We are at a peak of creativity in this space. Many, many people would be interested.

**Baroness Bonham-Carter of Yarnbury**: If there was no change of remit, would there be?

***Claire Enders***: I think that would narrow the group down very strongly. Then only European companies would be interested. Bertelsmann and Vivendi in particular would be interested because they would see the benefits of the innovation and so on, and they would probably see that there would be opportunity, but I do not think they would be quite as flexible as all that. In 2009, there was a project to merge Channel 4 and Channel 5, and unfortunately—Ofcom will have a better memory of this—in effect, the problems of dealing with the interpretation of the remit, which was then that the channel could not make net profits, visible profits, or distributions, or guarantee an exit for any minority shareholder such as Bertelsmann. It is quite complicated, so I discount that as an option, because it is quite difficult to achieve, and it is probably better, if you are going to sell Channel 4 at all, to go for broke and try to get £3 billion—in which case you go about constructing it in such a way as to get £3 billion as well as a number of public goods remaining. Which ones they are, we will see.

**Baroness Bonham-Carter of Yarnbury**: If that were to happen, what effect—these are rather big questions—do you see that having on our indigenous production industry and on what the viewers have on offer?

***Claire Enders***: There is no doubt that Channel 4 reaches the parts that other broadcasters do not. That is what it was set up to do, that is what Ofcom tasked it to do, and if it was not doing it, Ofcom would have found a way to beat it to do it, so it has met its legislative requirements and ambitions. If the law changes, that will have massive impacts, particularly on the production industry outside the M25—that would be the top one—and of course it would have a great impact on the diversity and on the words "minority programming". Nobody is going to outlay £1 billion, £2 billion or £3 billion in order not to earn a return, so a lot of things would get negotiated down.

One of the points I wanted to draw your attention to is that in 2009 and 2010, ITV negotiated a number of reductions in its local news, and it did so all the way up until the renewal of its licence. Now that ITV is doing phenomenally well—we do not have an advertising recession at all—it is not like those have been reinstated. They have not—they are permanent losses to viewers. You may not think that losing five minutes of regional news is a loss to viewers, but it is a permanent diminution in the diversity of voices in that part. It is a very difficult one, because inevitably anyone who looks at Channel 4 says, "It's basically all or nothing. You have so many benefits from this model". It is hard to see a way in which you can keep that and then have another outcome. The basic nature of public goods is that there are no substitutes for them. At the DCMS, when I presented on these topics, the Secretary said to me, "But surely Amazon and Netflix will make exactly what Channel 4 makes tomorrow. Look at 'Transparent'". I said, "Well, yes, but Amazon has just commissioned 'The Crown' and 'Top Gear'. It's not minority audiences, guys". It is the opposite; it has a global model and it is really not interested in our culture.

I feel an enormous sense of pride in using the words "British culture", which is something to be extraordinarily proud of and to sustain. If you look at Channel 4, which does not and has not cost us anything, and has not had to be bailed out, and out of which have come these manifest public goods—nothing is perfect; I absolutely agree with that, and there are many changes—but an extraordinary export industry has also come out of it which the UK did not have before, and a professionalisation of the film industry that ended up by attracting that £15 billion of inward investment. You have to look at things over 30 or 40 years and see that actually on no step of the way do you want to lose any of the economic benefits that you have generated out of the investment of this nation in developing those outcomes and outputs. Obviously, right this minute, Brexit would be a much more significant risk to the independent sector, marketing and advertising than privatisation would be. Fundamentally, however—I say this as an analyst of 30-plus years' vintage—you do not recover public goods that you give away for any reason for any negotiation, and private companies have a way of negotiating extremely hard and of having no locus of respect for legal obligations if they become economically difficult.

**Q10 Earl of Arran**: A most compelling and passionate advocate for Channel 4. I reserve some sympathy for the Secretary of State if he tries to interfere too much with you. However, that is in the future. This is a very brief inquiry, as you know. Are there some areas that you suggest we look at and that should have more importance than other areas in our inquiry?

***Claire Enders***: I would urge you to focus your minds also on the original, core and existing legislative requirement upon Channel 4 for minority audiences and not to miss out on outlining the fact that this is a mission that Channel 4 is delivering on, and it is important for us. I am really talking about groups that find their voice on Channel 4 that do not find it elsewhere, particularly BAME viewers. It is extraordinarily important not to forget the subtle impact on society that beautifully made public service broadcasting has. It has a very good impact. It is very difficult to measure, and I do not think that anyone—including Channel 4—could say, "We could measure the impact that Channel 4 has had on society these last 30 years". We can measure the obvious huge impact it has had on independent production, on advertising diversity, on the whole competitive landscape, and so on and so forth, but I know that that is the case, because I came to this country in 1981 as an immigrant and I have felt the changes. After the 2012 Olympics and Paralympics, I felt more of that change. I just hope that you will reflect on the fact that even if I cannot prove it to you, I believe that Channel 4 has a beneficial impact on us all.

**The Chairman**: That is a great note to end on. Thank you very much indeed, Claire. As always, you were very robust but equally very clear, which is extremely helpful to the Committee. Thank you very much for joining us.

***Claire Enders***: Thank you so much.

**Examination of Witnesses**

**Dr Steve Unger**, Chief Technology Officer, Ofcom, and **Gareth Barr**, Head of Public Service Policy, Ofcom

**Q11 The Chairman**: We welcome Dr Steve Unger and Gareth Barr from Ofcom. Thank you both very much for joining us. You are extremely welcome. Can I ask both of you in turn to introduce yourselves? If either or both of you want to give us an opening statement, please feel free to do so.

***Dr Steve Unger***: I am Steve Unger. I am a board member at Ofcom. I have been responsible over the years for various pieces of Ofcom media policy. I talked to you previously about media plurality, for example. I led the work on pay TV. I am currently acting group director for our content group and am therefore responsible for overseeing our work on Channel 4. I will make a brief opening statement, but first I will hand over to Gareth to introduce himself.

***Gareth Barr***: I am Gareth Barr. I am head of public service policy at Ofcom. I oversee our programme of work relating specifically to the public service broadcasters. That includes our work on Channel 4 but also the recent PSB review and regulation relating to ITV and Channel 5.

***Dr Steve Unger***: I will make a very brief opening statement. It is worth saying a bit about our role in relation to the oversight of Channel 4 and what it is not. Broadly, we are responsible for licensing Channel 4 and for holding it to account for what it is supposed to deliver. We do that through several different mechanisms. I will not list them all, but it is worth highlighting three of the most important mechanisms by which we hold Channel 4 to account. First, there is a set of quotas that Channel 4 and the other PSBs are required to deliver against. We annually report delivery against those quotas. That is clearly a particularly important way of making sure at the most basic level that the quantity of certain types of programming they are meant to deliver is delivered in practice. Alongside that quite metric-focused process, we also have an annual statement of media content policy, which has been referred to previously, which is more of a mixture: there is some quantitative analysis but also some qualitative challenge, where we look in slightly more detail at Channel 4's plans. There is an ongoing discussion with Channel 4. It then publishes what it intends to do and we publish a response to that. That is an annual process of quantitative and qualitative challenge. Finally, and perhaps most importantly, we carry out a pair of periodic reviews—the most recent was last year—in which we carry out over a roughly five-year period an overall review of where public service broadcasting is, and alongside that a specific report on where Channel 4 is. That is important, because it allows us to take a more strategic, holistic view of where the public service broadcasting ecology is, combining quantitative and qualitative analysis and making recommendations.

That is what we do. It is worth emphasising that we are not responsible for decisions in relation to the ownership of Channel 4 or to its remit. Both of those are ultimately for government, and I apologise in advance that while we are very keen to help you as best we can in the areas where we have competence, we tend to be cautious about making comments outside our remit. We will go as far as we can to help you with your inquiry, but we will be cautious about commenting on matters that fall outside our remit.

**The Chairman**: We will push you as far as we can.

***Dr Steve Unger***: I am sure you will. It is best to understand each other at the beginning.

**The Chairman**: Quite. My first question may give you some trouble.

***Dr Steve Unger***: You are welcome to ask.

**Q12 The Chairman**: We will have a go. The basis for a lot of this discussion about privatising Channel 4 is the sustainability of the organisation. Are you surprised that that is the basis upon which the Government appear to be considering whether privatisation would be a good idea? Do you think that Channel 4 is not sustainable over the period of the licence?

***Dr Steve Unger***: Let me set out where we are on sustainability, because there are two issues here. There is the sustainability question. We set out our views on sustainability in last year's PSB review. We said that we were broadly comfortable that Channel 4 was sustainable over the 10-year period of the licence. I would probably not be quite as definite as I think Claire was about the 10-year period, because in this sector it is difficult to predict the future. If you look at a credible-base case, it is clear that audiences are holding up, and advertising is holding up, so if you look at a steady-state evolution, the most likely outcome is that Channel 4 is sustainable.

However, we also noted that there are some risks. There are some scenarios it is possible to imagine where there are greater challenges. We linked that in particular to changes in audience behaviour, particularly of young people. As Claire noted, young people have always been different. They have always watched less television, perhaps because they have better things to do, but the particular point that we highlighted in last year's PSB review was that for the first time we were perhaps seeing some evidence that that behaviour learned at an early age was carrying through into not old age but slightly older age. In the past we have always assumed that that was essentially a cohort effect whereby young people were different but as they grew older they reverted to the norm. Some of the evidence last year suggested they were starting to bring that behaviour with them and we noted there was at least the possibility that if that accelerated, you could imagine a tipping point where more viewing shifted online and that was more disruptive to existing business models. It is also fair to say that over the past 10 years many people have predicted this type of tipping point, so we need to be cautious about saying that it is now about to happen, but I do not think that over this 10-year period one can rule out the possibility that that will happen. Therefore, for us there was a baseline assumption of a steady state, but it is not unreasonable—frankly, it is prudent—to plan for more disruptive changes in the market. Part of what we are talking to Channel 4 about in the context of the statement of media content policy is how it thinks about preparing for shifts in audience behaviour. What strategies would it adopt in those circumstances?

**Q13 Baroness Kidron**: I think you have partially answered my question. In the 2015 review—let me just make sure I understood it—you said that "further declines in Channel 4's audience reach and share, at the rate observed" would create risk.

***Dr Steve Unger***: Could create risk

**Baroness Kidron**: I beg your pardon: "could create risk". Has anything shifted very recently to make you feel differently?

***Gareth Barr***: That risk stands. Were you to see the declines at the rate you had, that would be a real challenge, both for the commercial sustainability of it as a business but also in terms of the impact that it can deliver, particularly on the main channel, which is where the bulk of its PSB output is. Absolutely, that risk stands. What is interesting is that since we said that, it appears that the performance of the main channel is stabilising. If that holds as the emergence of a long-term trend, that is really positive news. Nothing has changed to make us fear that that risk is more likely, but the impact of that risk could be challenging.

**Baroness Kidron**: You have mentioned that its PSB remit is all on the first channel, but you also suggested in that same review that both obligations and privileges might be pushed around the entire portfolio. Have you changed your view? How does that view sit in the current thinking?

***Dr Steve Unger***: We have not changed our view on that. We made two recommendations. One was about giving Channel 4 the flexibility to deliver its remit across the range of delivery channels. For us, there was nothing complicated about that recommendation; the view was simply that if we gave management more flexibility to deliver the remit across the range of channels to market that it has, that ought to be a good thing. It was difficult to see a downside in giving it that flexibility. There is certainly a question as to how much value in practice it would realise from that. The most obvious benefit would be if it was able to use its online channels as well as its linear channels to target younger audiences. That feels a natural thing to try to do. From our perspective, if it delivers the outcomes that we want, we should give it the flexibility to decide how it delivers them.

**Baroness Kidron**: So you are not actually requiring more PSB off it, just an easier way to deliver it.

***Dr Steve Unger***: It is absolutely about defining outcomes but giving them the flexibility to deliver them. The parallel recommendation, as you know, was that to the extent that there were going to be challenges, it would also be helpful for us all to be more precise about those outcomes and about what in particular we want out of Channel 4 which the market is not delivering. That was also felt to be a benefit. For me, that is a statement of the obvious.

**Q14 Baroness Bonham-Carter of Yarnbury**: Considering your opening remarks, I have a suspicion that you will find this question difficult. Were you surprised, considering that you are an independent body and that Channel 4 is an organisation that you want to thrive, that the Government did not accept Ofcom's recommendation to extend Lord Burns's tenure as chairman?

***Dr Steve Unger***: We made the recommendation because we felt that in a period when there was some uncertainty about the future of Channel 4 it might be sensible to wait until the future was clear before appointing a new chairman. That was our rationale, but it was the Government's decision. They took a different view, which is fine. Our response to that has been to get on with our job, which is to run an open and transparent process to appoint a new chair, and we are very comfortable with the outcome; we have a good new chair in place, which is probably the most important thing. Terry Burns had been in place for two terms, which is a good run. It is not difficult to see the counterarguments, the reasons why the Government decided that it was time for change, but in the end it is their decision.

**Baroness Bonham-Carter of Yarnbury**: And we have a new Trade Minister, but you cannot comment on that.

In Sir David Clementi's report, he suggested that Ofcom takes on a certain regulation of the BBC. Would you not agree that this means that the Ofcom board has to have, in a way that perhaps it does not at the moment—I see Stewart Purvis at the back of the room—people who have real understanding and experience of the making of television?

***Dr Steve Unger***: Not just the board but the organisation. So the answer is yes. Clearly Sir David's recommendations were fairly extensive and would represent a significant change to Ofcom's remit. It is already important, of course, that we understand how TV operates and how programmes are commissioned. In Stewart's day, he made a very important contribution on that front. We have been recruiting for someone to head our content group, and as part of that process we have been very clear that we want someone with editorial experience who brings that type of experience into play in the organisation. So, yes, we do need to make sure that we have the experience in the organisation that matches our responsibilities.

**Q15 Lord Sherbourne of Didsbury**: I hear what you say about the remit being a fait accompli, but in terms of your holding Channel 4 to account and therefore judging its success in performing against its remit, how clear or precise do you find the remit?

***Dr Steve Unger***: It is not a fait accompli; it is just for government to decide. There are areas where we have a degree of discretion in how we interpret the remit. Government sets some very specific quotas for the delivery of certain types of programming that are very clear. Over and above that, there is the remit, which is always capable of a degree of interpretation. Of course, part of our job is to make sure that we interpret that remit in the spirit that was intended. Gareth and I talked earlier about the interesting example of a specific quota for out-of-London production as part of the most recent relicensing process. We took the view that it was appropriate to add a requirement to produce a certain amount of content out of England and consistent over and above the out-of-London quota from government. We thought it was consistent with the remit, which requires a degree of diversity. So we do interpret the remit, and on occasion we can, if you like, place additional obligations on Channel 4 to make sure that it delivers on it.

**Lord Sherbourne of Didsbury**: Do you have any sympathy with what the Secretary of State has said: that he finds the remit rather fuzzy and that it should be more specific? Does that strike a chord with you?

***Dr Steve Unger***: I do not want to use overemotive language. In these remits there is always a mixture of quantitative metrics, which are easy to understand. The problem with quantitative metrics is that they never really capture all that you really care about. Metrics are a great way of measuring the quantity of stuff that is produced, but they are never as good at capturing the quality, the tone, the type of content. One always has a mixture of quantitative metrics and, if you like, a qualitative narrative, and, compared with those metrics, that qualitative narrative is intrinsically slightly fuzzier.

**Lord Sherbourne of Didsbury**: So fuzziness is always inevitable.

***Dr Steve Unger***: I live with a degree of fuzziness in much of our work, because you cannot capture everything perfectly with KPIs and metrics in any aspect of our regulation but particularly in broadcasting. It is not possible to capture perfectly through quantitative metrics what a broadcaster delivers.

**Q16 Baroness Benjamin**: Are you confident that Channel 4's obligations to older children and young adults are being met? If not, how can it be held accountable?

***Dr Steve Unger***: The short answer is no, but I will hand over to Gareth.

***Gareth Barr***: As part of both our review and last year's annual process that Steve mentioned, this was the main issue that we highlighted on which we had some concerns. It is worth being clear about what the remit requires. This probably builds on the question that we have just answered, which is that they are required to provide a range of content that appeals to older children and younger adults. That is a very broad statement; it is not the same as a quota that is put in place for specific programming targeted only at an age group. The remit is relatively broad. They have put forward the case that they believe they can deliver more impact through a range of programming that appeals more broadly beyond only that age group and that sits on the main channel, rather than specific programming on a portfolio channel. They think they will get more people watching in that age group and that it will have more impact.

We raised some questions about the extent to which that strategy was suitably ambitious, and it is an area that we intend to follow up with them on. It is a good example of where there is room for interpretation. Channel 4's audience profile versus other channels' definitely skews younger. E4 in particular skews much younger. In one interpretation, they are undoubtedly delivering content that appeals to younger viewers. Our question to them is whether it is sufficient to fulfil this element of their remit in the way they are choosing to do so, and we have asked them to put forward in their statement this year evidence on how they think it has performed and the impact that that strategy is having.

**Baroness Benjamin**: If not, how can they be held accountable?

***Gareth Barr***: At the risk of sounding slightly technocratic, we would push them hard and hope that they would react. If they do not and things reach the point where we feel that we have exhausted the conversation, Ofcom has the ability to direct them to alter their statement. In the event that we think either that they have not complied with the direction or that it is not having the required impact, we can vary the licence accordingly to ensure that the issue is rectified. I would describe those as steps of last resort. That is not where I think we are or where I hope we end up, but clearly the regime that is in place ultimately has teeth if we need to use them.

**Baroness Benjamin**: That is good to hear. Are there other areas that give you cause for concern, and do you think these areas would benefit from having quotas? You mentioned quotas earlier. There are some complaints that not enough arts, for example, are being put out on the channel. What, in your view, needs to have something done about it?

***Gareth Barr***: We highlighted a number of areas where we raised questions. Interestingly, one—international output—was an area where, although it is not a quota, they have a metric whereby they report the volume of hours that they are producing, which are across a range of genres but that have an international feel. We had seen a decline over time of that provision. We had seen the same with diversity, which is perhaps more surprising given the channel's focus particularly on disability. It was also an area where we did not focus solely on the volume of output, because they at least had the plausible case that they were now focusing their output on a range of very high-profile, high-impact programmes rather than simply on a volume of hours. Quotas in and of themselves can secure a level of output, but they do not secure the impact delivered by that programming.

The other obvious thing to say is that the more quotas you apply, the more you are boxing them in in their schedule and in trying to meet the needs of their viewers. That is something that we are inherently uncomfortable with, not least when the remit defined by Parliament is focused very much on the impact and the outcomes rather than the volume of output per se.

***Dr Steve Unger***: Exactly. I would add to that that I am always nervous about quotas. They have an important role, but if one ends up with an overelaborate system of regulation with hundreds of different quotas for lots of different categories, there is a risk of regulatory failure, because you have constructed a regulatory system that is just too complex for anyone to understand but that also does not give flexibility to people to judge what is good for their audience. At some point, Channel 4 itself needs to judge what is good in creative terms for its audience, and we need to give it enough space to do that as well.

**Baroness Benjamin**: Do you think it is doing enough as far as diversity is concerned, then?

***Dr Steve Unger***: We would want it to do more, yes.

**Q17 Baroness Healy of Primrose Hill**: Channel 4's 2004 licence stipulates that its news provision should be high quality, national and international; accurate, impartial, authoritative and comprehensive; and not less than 208 hours in peak viewing time each calendar year. The Secretary of State has said that the public service remit of Channel 4, including news provision, will be protected in the event of privatisation. My question is: bearing in mind that the Government have indicated that they would want Channel 4's provision of news to be protected in the event of privatisation, how, in practical terms, could Ofcom help to redefine and police the channel's remit in ways that would ensure that this happened?

***Dr Steve Unger***: It is worth unpacking the different elements of that remit. There are elements of that which we straightforwardly deal with in relation to commercial PSBs. Quotas could be applied to anybody. We also apply the rules on accuracy and impartiality through our broadcasting code to the full range of broadcasters, so one would assume that we could still carry that through in the event of privatisation. Then you get to some very difficult questions about "high quality", which you mentioned; you get some quite practical questions about what that means in practice. If there was a new ownership and a new remit, how would that new remit define "high quality" in a way that was enforceable in a commercial world? That is the issue that the Government would have to work through, and where the detail becomes important.

**Q18 Lord Hart of Chilton**: Mr Elstein, one of the critics of the regulatory system for Channel 4, says: "There is no set measure of success, nor any prescribed penalty for failure". Can you let us have your views on whether the current system of regulation is effective in holding Channel 4 to account?

***Dr Steve Unger***: I went back to David's article, and he is always provocative in his comments. First, his comments related specifically to the additional provisions under the Digital Economy Act, so, if you like, the annual review of the SMCP process. I think that his comments related specifically to that process. There is an element of truth in what he says in that much of that process is qualitative. However, as Gareth has just said, there are teeth; as an absolute backstop, the Digital Economy Act makes clear that we have the ability to direct Channel 4 and we ultimately have the ability to vary its licence. The threshold for doing so is high, but that is probably appropriate. It is not necessarily right that we should on an annual basis continually tinker with the licence of broadcasters—that is not good for business certainty. Therefore it has teeth, but the threshold for applying those teeth is quite high.

Also, and quite importantly, that is not the only way in which we hold it to account. There are quotas, which are quite measurable, and we have teeth if they do not deliver on the quotas. There is the process by which we licence Channel 4, and at that point, when the original licence is set, we have a great deal of discretion to put new obligations on it—I mentioned earlier the out-of-England obligation on Channel 4—and we then hold it to account. So I do not accept David's statement, but I do accept that there is always a challenge in trying to hold broadcasters to account completely through quantitative metrics. This is a long-running discussion that we have had with him. The metrics capture quite a lot of what they need to do, but they do not capture everything, which is why the qualitative part of our work is also important.

**Lord Sherbourne of Didsbury**: Can I just pick up your very last point about the qualitative evaluation, or your evaluation of quality, which, of course, does not have figures? How do you do that?

***Dr Steve Unger***: It is not easy. There is a link here, by the way, to the work that we did on media plurality, where you can measure the consumption of media; it is much more difficult to measure the impact that that consumption has. However, we can carry out audience research. We ask audiences about their perception of the different content they watch. That gives us an evidence base, and that is what informs our assessment, probably more than anything else. However, it is not quite as much of an exact science as measuring the quantity of stuff that is produced.

**Lord Sherbourne of Didsbury**: You have reminded me of the report you did on media plurality. It was quite a complicated report, but I remember puzzling when I read it about how you discovered what the impact was. It is a very precise word. How do you do that?

***Dr Steve Unger***: Essentially, you carry out market research. You ask audiences not just what they watch but which of those programmes have actually affected their opinions—which have shaped the way they think about the world. That gives you some sense of what programming has the most impact in those areas, but it is much more difficult evidence to interpret than evidence on the number of hours broadcast. So you can have a go at it. There are always areas where we make some subjective judgments; we have to try to make sure that those judgments are as informed as they can be by evidence, particularly audience research. However, in the end, there also has to be a judgment; you look at that evidence in the round and you make some judgment.

**Lord Sherbourne of Didsbury**: This is not a question but a final observation from me. I have a very good friend who is a regular pundit on television and radio. People often hear him and tell me how good he was. When I ask, “What did he say?”, they cannot remember anything.

***Dr Steve Unger***: That suggests that he has one sort of impact, but not another.

**Q19 Baroness Benjamin**: Some critics of Channel 4 feel that certain areas of its remit have been eroded over time. How would Ofcom ensure that the remit of a privatised Channel 4 was protected over time?

***Dr Steve Unger***: The starting point would be for government to specify that remit: what is the core remit that it wants to have protected in this new world. My more general comment, though, is that it is true that the remit of the various public service broadcasters has changed over time. ITV is a good example. Over the years, the things that we require it to do have reduced because of the commercial reality that the benefits it gets are not as great as they used to be in a multi-channel world. I am sorry to give ITV as an example, but it is a particularly clear one for me, because in that case we felt particularly strongly about regional news, and a decision was taken to focus particularly on protecting that. You have to judge what matters most to you, and, in the new world, what matters most to government. That then needs to be written into the remit, and we need to find ways of measuring and delivering against that remit as best we can. Our task in holding them to account has to follow what that remit is, and unfortunately the way we would do it would vary depending on the remit. I am sorry; that is an incomplete answer. We have to start with what the remit is, and we then have to work out the best way of holding them to account against it. But there have been plenty of circumstances in the past where remits have changed in response to changing market conditions and changing priorities.

**Baroness Benjamin**: Okay. In practical terms, what resources would Ofcom need to regulate a privatised Channel 4 effectively?

***Dr Steve Unger***: I am probably going to give another slightly wishy-washy answer. It depends on what the job is. I honestly do not know. It depends on what the remit is. It then depends pm what we would have to do to hold it to account. We would have to work through that analysis to work out what the level of resources would be. I am sorry; that is not a very thorough answer, but I am afraid it is the reality.

**Baroness Benjamin**: You are playing the blushing bride or bridegroom, are you?

***Dr Steve Unger***: No, it is simply that I do not know what the job is, so I cannot quantify what resource would be required to do it.

**Q20 Lord Hart of Chilton**: How much confidence do you have that a privately owned Channel 4, with the investment of capital and return on investment that that would require, would be able to fulfil its public service remit?

***Dr Steve Unger***: I am at risk of giving another unhelpful answer, because it depends on what that remit is. I would have to know what the remit was and then I would have to go through the process of understanding how we would hold it to account before I could assess the risk.

**Lord Hart of Chilton**: So you assume that any privatisation would require a change to the remit?

***Dr Steve Unger***: I am assuming that there is at least a question as to what the remit would be post-privatisation. If there is no change to the remit, we would still have to go through the analysis, because clearly something would have changed—the governance mechanisms of the organisation would have changed. We would certainly need to look at whether the mechanism for holding it to account, given the desire to keep the existing remit, would still be effective given the changed governance and incentives of the organisation. I would not assume that it would stay the same, though. Equally, I would not assume that we could not do it at this stage. I think we would have to work through the analysis.

**Lord Hart of Chilton**: I fear that you are going to fob me off again. My second question is: what impact would this have on the rest of the industry, including the independent production companies?

***Dr Steve Unger***: My answer is a slight fob-off. It would at least be possible to continue to have certain constraints on Channel 4. There is a straightforward point that, as part of the process, a decision would need to be made about whether to rebalance the current terms of trade. The current terms of trade are essentially a balance between two sets of priorities, giving the public service broadcasters as much flexibility as possible over how they exploit rights but also building up this quite amazing set of independent production companies. There is a balance there between two different policy aims. First, it would be necessary to decide where that balance was set in this new world. The balance could be maintained where it is, in which case it would presumably be necessary to say to a privatised Channel 4 that there were significant restraints on its ability to produce content in-house. That would affect its commercial flexibility, but at least in principle it is possible to constrain commercial flexibility.

**Q21 Baroness Kidron**: I wonder whether I might stray further into your nightmare areas. Perhaps you can talk a little about the question of foreign ownership. Presumably you have taken some view. I am interested in what impact that might have on the channel and the production companies that we have just talked about but also on the viewers. Can you say a little about that?

***Dr Steve Unger***: This has come up before in the context of Channel 5, for example. It is worth saying three things. I might see whether Gareth wants to add anything. First, as a general rule, what we care about is what the broadcasters deliver to audiences, and of course we care about UK production. A foreign-owned broadcaster still ought to have a commercial incentive to produce content that is targeted at UK audiences. We do not automatically assume that foreign ownership is always a bad thing. Therefore, you have to look at cases on the facts of those individual cases.

As to how that would play out with Channel 4, there are probably two straightforward points to make. First, at the point of privatisation, the Government have the option of deciding whether they want to place any constraints on how that privatisation takes place. That is a question for government. Once it is in the commercial sector, we already have a process we apply for the range of commercial licensees. Whenever there is a change of control of the commercial broadcasters that we license, we go through a change of control process. That process has historically involved us assessing the delivery of those broadcasters against quotas and asking ourselves whether under the new ownership we think there is likely to be a change in that level of delivery that would concern us. If we think that there might be a change, we have the ability to vary the licences, essentially to lock in historic levels of delivery. That is never a perfect mechanism, but it gives us a certain level of ability to handle changes in delivery that we think come with changes of ownership. That is a generic ability that could certainly apply in case of a foreign bid, but I would not want to say that as a matter of principle we are against capital coming into the UK to invest in the UK; we are not against that as long as it results in more UK production and better delivery to UK audiences.

**Baroness Kidron**: Given that we have had some experience of this, have you noticed anything that a foreign owner does bring? Is there a cultural shift?

***Dr Steve Unger***: We see some of that, but there is a wider issue, which is the globalisation of production. This is an issue for foreign-owned companies, but it is also an issue for UK-owned companies. The commercial incentive across many genres is to produce content that can be sold globally. That makes a lot of sense commercially. That does not necessarily support the desire to produce content that reflects UK culture and meets the needs of a UK audience. There is a clear tension there. It is clearly desirable that our production sector is able to sell globally. That has clear benefits. There is a risk that it results in more content that does not reflect UK culture and the interests of UK audiences. That is the tension that we have had to deal with for a number of years irrespective of the ownership because even UK-owned production companies face that same tension.

**Baroness Kidron**: Perhaps I might ask the same question in an even narrower sense about PSB. We have this great PSB tradition. If Channel 4 and Channel 5 are foreign-owned, does that threaten the ecosystem of PSB?

***Gareth Barr***: I would try to get under the skin of what would drive a concern about that. Viacom already owns Channel 5. I have not noticed a demonstrable change in the channel’s approach. It is talking about increased content investment. That would be a good thing. Were you to see the acquisition of either Channel 4 or ITV, the core thing that is delivering the revenues to those businesses is their attractiveness to UK consumers, and all our research suggests that UK consumers love new UK programmes. The best of the American series are absolutely brilliant and we all like them, but actually what the bulk of people in the UK are watching is UK content. The prospect of an American company or anyone else coming in, acquiring that company and then setting about destroying all the cultural values that have made it such an appealing target in the first place is at least questionable; you would want to unpick that. I would also point to the strong demand for UK content abroad. You need to look at the reasons they want to invest in the first place and getting access to the best of British content is a compelling proposition for them.

On the independent production front, the only point I would make is that one of the strengths of the current system is that you have a qualifying status for independent companies that means that if you are linked to a UK broadcaster you are no longer a qualifying independent and therefore you do not qualify for the PSB quotas. We have already seen a range of foreign acquisitions but those big global media companies are UK broadcasters while they have UK channels. Those companies that they acquire therefore no longer qualify, meaning that there is more space and money going from the PSB system into the existing pool of qualifying slightly smaller companies. There is a degree to which in the independent sector at the very top some of this is a bit self-correcting. But, as Steve says, there is no presumption that foreign is bad. The things we care about are the things that are kept within the remit.

**Baroness Kidron**: If I can just push you on the shop window thing that I keep hearing about, we hear that Amazon might have huge things, such as "The Royals", and it buys in to have a shop window on what is global and does not really need to worry about the local audience quite so much. That is the argument. What would you say about that?

***Dr Steve Unger***: There is something of a concern here. I suppose we are trying to argue that, across the range of different genres, foreign ownership is not necessarily a problem and can even be beneficial. But there could be concerns in some areas, and we have to at least look at that.

**The Chairman**: The Division bell is ringing, which probably means that this is a good moment to conclude. Thank you very much. Within the constraints that I know you felt in answering us, you have been extremely helpful so thank you both very much for coming.