



Select Committee on Communications

Corrected oral evidence: The advertising industry

Tuesday 5 December 2017

3.30 pm

[Watch the meeting](#)

Members present: Lord Gilbert of Panteg (The Chairman); Lord Allen of Kensington; Baroness Bertin; The Lord Bishop of Chelmsford; Viscount Colville of Culross; Lord Goodlad; Lord Gordon of Strathblane; Baroness McIntosh of Hudnall; Baroness Stowell of Beeston.

Evidence Session No. 10

Heard in Public

Questions 97 - 104

Witnesses

I: Jonathan Allan, Sales Director, Channel Four Television; Max Beverton, UK Policy Manager, Sky; Tess Alps, Chair, Thinkbox.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Jonathan Allan, Max Beverton and Tess Alps.

Q97 The Chairman: I welcome our witnesses and thank them for coming to this session in our inquiry on the advertising industry and skills and training in the industry, particularly in the post-Brexit environment. Today we are focusing on evidence from the broadcasting industry. The session will be streamed online on the Parliament channel, and a full note will be taken for the record, which you will be able to see afterwards.

Would you introduce yourselves and tell us a bit about your background and the organisations you come from? In your opening remarks, perhaps you could tell us a bit about the role that TV plays in the UK advertising ecosystem, and about the role of television broadcasters and challenges in the future, bearing in mind our focus on developing skills for the industry.

Baroness Stowell of Beeston: Chairman, can the witnesses hear us? I wondered whether the volume could go up.

The Chairman: Can you hear us?

Tess Alps: Just about.

The Chairman: The engineer will tweak the volume to make sure that you can hear us. It might be a bit better now.

Max Beverton: Thank you very much for the opportunity to give evidence to the Committee this afternoon. I am Max Beverton, and I look after government and public policy relationships for Sky's advertising business. I am also a director on the Broadcast Committee of Advertising Practice, BCAP, which is the co-regulator for broadcast advertising. Before that, I spent six years working for Ofcom on content regulation and communications policy.

The three of us are giving evidence on behalf of the television advertising industry, which is very different in 2017 from a decade ago. This is an opportune moment for such a broad inquiry. I have three quick points of introduction.

Much of the debate about the future of television advertising, and advertising in general, is coloured by the idea that the internet is destroying our business models. Although, in television, we are confident that that is not happening, that is not to say that the way online advertising operates and is regulated does not create enormous challenges for the entire industry.

Television is the gold standard for content protection measurability. It is already heavily regulated, precisely because of its power. The same cannot be said for online content and advertising. As one of the UK's largest advertisers, we have significant concerns about that.

Finally, in order for television to continue to fund the great original programming that we produce, and to be at the heart of the creative industries, we need to be able to compete on a level playing field with online advertising. As a broadcaster, we are rightly accountable for the content on our channels and the advertising in our breaks. This is a great opportunity to ask, in this Committee, whether the right frameworks are in place, now and after Brexit, to ensure that all advertising is brand and viewer safe.

Tess Alps: Thank you very much for the opportunity to be here today. I am Tess Alps, the chair of Thinkbox, the marketing body for commercial TV in the UK, in all its forms and on all its screens. We represent pretty much 100% of the TV advertising market in the UK. For transparency, I also sit on the council of the Advertising Standards Authority, but I am not speaking in that capacity at all.

TV advertising is fundamental to the commercial and cultural health of the UK, for two main reasons. First, TV is the absolute bedrock of advertising effectiveness. A recent major study of 2,000 campaigns found that TV accounted for more than 70% of the profit generated by advertising. Secondly, TV advertising is a major contributor to the nearly £6 billion that is spent annually on programming by the commercial broadcasters alone. That provides UK audiences with vital impartial news and current affairs and entertainment that is indigenous, primarily made for UK audiences. It does that while protecting adults and children from extreme content.

Anything that unfairly disadvantages TV advertising will damage our GDP, the profitability of major UK companies, the provision of original UK programming and Britain's international programme industry, which is a great success story in its own right. TV has been taking advantage of new technologies, and more and more TV will be viewed using internet technology. The internet is no more a competitor to TV than electricity is. For that reason, it is absolutely vital that TV can compete fairly in an online advertising market. We have a market online that is severely distorted by a global near-duopoly of some tech giants, which makes it very hard for other players to make money online.

The broadcast market remains highly regulated. Those restrictions protect viewers and advertisers, and contribute to the high levels of acceptability and trust that consumers have for TV ads. But now that we are competing directly with companies that are allowed to operate with minimal regulation, that freedom has allowed them to become market dominant and unnaturally profitable. We need help.

The Chairman: We look forward to unpicking some of that in our questions.

Jonathan Allan: I am Jonathan Allan, commercial director at Channel Four. We are a not-for-profit public service broadcaster, funded entirely by commercial means. Thanks very much for inviting us along today. This is a really important discussion at an opportune time.

The health of the UK's advertising market is absolutely central in ensuring the ongoing success of the UK TV sector, in particular Channel Four. Despite the changing landscape, as Tess said, TV remains the dominant viewing medium, and TV's share of ad spend has remained very stable over the years, because we are proven to be the most effective medium, with the most trust. However, we are having this inquiry in the midst of a very tough cyclical period for both the UK economy and the TV ad market. Those cyclical pressures are being compounded by a number of structural issues, mainly emanating from globalisation and the rapid uptake of new technologies.

I believe that the TV industry in the UK is addressing those issues as well as anyone around the world. As Peter Bazalgette outlined last week, public service broadcasting has never been more important. We have a rich and successful ecosystem in the UK as a result of some excellent and considered policy intervention over the years. If we want to hold on to something that is pretty special in the UK, the Committee should be interested in three main areas.

First, we should ask whether the current regulation of online content and advertising is appropriate. We think that broadcasters need a more level playing field with the likes of Google and Facebook, particularly because of their scale and their appeal to children.

Secondly, key to our vibrant broadcasting ecology are the rules on prominence that the PSBs receive. We are pleased that Ofcom is investigating this area, but the rules on prominence are no longer fit for purpose in the modern age if we want to continue to have a world-leading TV sector led by public service broadcasting.

Thirdly, post Brexit, it is really important that we retain equivalence with EU regulation on data protection and e-privacy, and the AVMS directive, particularly the country of origin principle, and that we have the widest possible access to markets and talent.

Q98 Lord Gordon of Strathblane: I want to pick up one of the points Tess Alps made. Will the others please come in as well? I gather that OC&C Strategy Consultants predicted that you would lose up to £1 billion from television advertising.

Tess Alps: I suspect that the OC&C definition of television advertising is the broadcast television market. TV is now making money with online TV, which goes some way to replacing that. We see a future where the immense money available to some of the international giants allows them to enter a television market, and indeed to scoop up rights to programmes. Who knows what that scenario might bring?

Max Beverton: I completely agree. Television is not just the 30-second spot any more. It is about online viewing. Sky has innovated in addressable television advertising—targeted television advertising. We are finding that the market is much broader. Whereas, 10 years ago, we might have talked about a TV advertising market, we are now talking

about an online market, too, where we are competing, but not on the same standards and not on the same level playing field as some of the online tech giants that are making big investments and moves in advertising.

Jonathan Allan: The TV industry, particularly in the UK, has innovated really successfully. Sky has fantastic platforms. It has AdSmart, which provides addressable linear advertising and is data driven. Channel Four has All 4, and we have 16 million viewers registered to our service. We are therefore able to offer pretty sophisticated data-led products.

The world has got more competitive. TV revenues have grown by between 3% and 4% over the last five years, which is pretty good in the grand scheme of television growth. Our digital revenues have probably been growing at a rate nearer 20% to 25%. We are doing quite well, but the world may get even more competitive over the next five to 10 years, with the resources and scale of the digital giants. There are also companies such as Netflix and Amazon competing from a more subscription VOD perspective. It is a very competitive world. UK TV players are doing well, but it is a big world, and it is getting more competitive.

Lord Gordon of Strathblane: I will ask you this outright. The others should feel free to come in. Do you regard Amazon and Netflix as programme platforms or programme makers?

Jonathan Allan: I would definitely regard Netflix as a programme maker. It is commissioning its own content at scale now. Amazon is also commissioning content, but to a lesser degree than Netflix. Netflix's budgets are huge around the world, and it is commissioning a lot of content, which takes viewing share from UK-based broadcasters and bids up the cost of content and talent. That is something else that we need to compete with aggressively.

Max Beverton: I agree. Netflix and Amazon have both made headway into investing in original content, and they have some great content, but it is not local UK content as we might normally understand it, or, where it is, it is only at the margins. One of the things we are proud of at Sky is our strength in investing in the markets where we operate. In the UK, we invest in local UK content that means something to UK viewers, similar to what the public service broadcasters do. In advertising in general, we are competing for advertising pounds with online video platforms such as YouTube and Facebook, which do not invest in content in the same way. Where they do, it is mainly in the US, and they have only started that foray.

Lord Gordon of Strathblane: Is their intervention such that it will weaken your ability to fulfil your Ofcom commitments?

Jonathan Allan: I do not think so, not currently. Netflix and Amazon will fulfil a certain role. They are very much focused on scripted. Clearly, BBC, ITV, Channel Four and Sky offer a slightly different type of drama. There

is still a role for the type of drama that we will commission. They are moving into other areas—fact and stuff—but they are just another competitor. At the moment, their share of viewing is still relatively small in the UK in comparison with public service broadcasters.

There is a world in which we can work with these global players. We have done a number of co-productions with Netflix and Amazon; “Electric Dreams” was with Amazon, and “End of the World” was with Netflix. We can amortise the cost of very high production-cost drama where those players get the global rights but we retain the UK first window. There is a world in which they become a frenemy as much as a direct competitor, but we need to be very clear about what differentiates us as UK broadcasters and the more global players.

Tess Alps: It is very important to differentiate platforms, such as Google and Facebook, and Netflix and Amazon, which are putting money into very high-quality content, but that is not culturally specific to the UK. That is the importance of the programming made especially for our market.

It would be easy to be complacent about the scale of Amazon and Netflix in the market. At the moment, they take no advertising money, but some commentators believe that, given the lack of profitability of Netflix, say, a day might come sooner rather than later when it has to take advertising. At that point, not only is it taking viewing share, but it is taking advertising money, too. That is quite a serious situation.

Lord Gordon of Strathblane: Is the role of content changing in broadcasting?

Tess Alps: The role of content has become more and more important. As new technologies have come along, the way we distribute TV is becoming less important, in a sense. What really matters, and what changes businesses, is the quality of content. We find that some of the newer players want to cherry pick content. They do not do what broadcasters do, which is to provide a wide diversity of content, including current affairs, history and science. They cherry pick football rights or a film. That is not very helpful to the overall health of the economy.

Jonathan Allan: The role of a 24-hour, seven-days-a-week broadcaster is very different from that of SVOD players such as Netflix or Amazon, which have a different business model and produce different content. We provide across all genres, whether current affairs, news, live sport or event television, that people like to watch. Tess has a great statistic: 86% of all TV is still watched live. That immediacy and the role of television to be there for everybody at whatever time they want is still absolutely valid. The role of content in the genre mix will remain fairly similar. The distribution—how we get out to our audiences—needs to be ambitious, and we have innovated strongly there.

Max Beverton: The definition of the word “content” is broadening every day. There is highly regulated, high-quality broadcast content, all the way

down the chain to user-generated content or gaming content. All of it operates in a similar market, in that it is trying to attract people to watch it and is trying to appeal to people, although it operates on very different levels of rules and according to very different funding models; they are based on advertising, but with different levels of regulations and rules.

Baroness Stowell of Beeston: It is heartening to hear what you say about content. I was intrigued, because what you are arguing is slightly different from what we heard last week, when we had representatives of newspapers in front of us. They were arguing that content does not drive things in the same way as it used to and that advertisers are just looking for eyeballs. Have you thought about the difference in the threat to broadcasters as opposed to newspapers? Do you see that difference, and what lies behind it from your perspective? Why is content still so precious to advertisers?

Jonathan Allan: Newspapers have particularly suffered in the digital transformation, because news is ubiquitous on the internet. There is a never-ending supply of news, and they really struggle to differentiate themselves as news sources, and have been very much disintermediated by the likes of Google and Facebook. When they made the transition to an ad-funded model, they were earning very good prices in print. Then, because of the commoditisation of online display advertising in particular, they were earning pennies versus pounds.

When TV broadcasters moved our services online through our video-on-demand services, the first thing we managed to do was to command the same prices on video on demand, sometimes with an even higher premium, due to the data we have and the better targeting capability. We are pretty agnostic about where anybody watches our content, because we monetise our consumers and viewers at a similar level. That is a fairly easy transition for us to make.

Content is different from news in the way we protect content on our own platforms. We do not tend to distribute widely on YouTube and Facebook for free, because the monetisation opportunity and the revenue share from the likes of YouTube and Facebook is not commercially optimal and does not even allow us to make money at the moment. We have managed to retain our content and our walls, and viewers still come to see us. We used to distribute our content on YouTube, but people still chose to come to Channel Four platforms to watch it, because that is what our brand means. We have done quite well there.

Baroness McIntosh of Hudnall: I will put this succinctly. I am interested in what you are saying about content, particularly in relation to how you talked about Netflix and the cultural neutrality in what it is doing. Its biggest hit, or one of them, is a series about the UK monarchy. Thinking about content in culturally specific terms, can you account for that? The UK market as such is not anything like big enough to be a reason for choosing that, is it?

Tess Alps: It is global. The British royal family is a global property. Netflix has used that up. After that, it will probably struggle to find a massive global property that is specific to the UK.

Baroness McIntosh of Hudnall: It is as culturally specific as that. Just to turn that on its head, when you are thinking about selling your work in global markets, is it its lack of cultural specificity that works or its having cultural specificity?

Max Bevertton: We think about both. It has to be a combination of both. Sky is in five European markets, so we produce content for across Europe, but we produce content that is specifically focused on the market where we operate. For example, a few years ago we had a comedy series called "Trollied", which is based on a supermarket. It is a UK supermarket, so it is very much focused on UK ideas. That might not sell abroad, but we also think about other productions that are much easier to sell to a global market. As I said earlier, the strength of what we believe Sky offers is local understanding of the market, working with content producers who understand UK-specific ideas and culture. We can then sell those globally, based on an understanding of how to make big, attractive TV.

Jonathan Allan: We probably differ from Sky on that. Because we are a public service broadcaster, we are very much focused on delivering UK content for a UK audience. Quite a lot of Channel Four content does not necessarily travel well. It is focused on our own culture; our documentaries, news, current affairs, drama and so on tend to be focused on the UK. That is why I think we have a role in future to provide something different from Netflix and the Amazons of this world, because we are very much focused on the UK.

That is on the scripted side. "The Inbetweeners" and comedies such as that tend to be UK specific. Where Channel Four does well in exporting around the world is in our formats, whether that is "Wife Swap" or "Gogglebox". The format is exported around the world, but people use local talent to deliver it and give it a local flavour. It is still a good generator of economic value to independent production companies in the UK, but it allows them to use local talent and give a local flavour.

Q99 **Viscount Colville of Culross:** Good afternoon. I declare an interest: I am a series producer at ITN Productions.

I want to ask about transparency in online advertising. Tess, in your reply to us, you quoted Procter & Gamble, which describes the supply chain as "murky at best and fraudulent at worst". Max, you noted in your submission that only "40p in each pound spent by advertisers" online gets to the publishers, because the supply chain is so very complex. How concerned are you by the complexity of the online advertising supply chain, and what can be done to try to make it more accurate and effective, both for the publishers and for the advertisers?

Tess Alps: This is very much a concern of people in the advertising market, not just broadcasters. ISBA will tell you that it is as concerned

about the integrity of online advertising as we are. Through fraud, the chain has basically hyped the online advertising market and has therefore sucked money into it in a way that it did not, possibly arguably, deserve.

That is combined with poor attribution. I will try to explain that. If somebody clicks on a search ad or an online banner ad, attribution systems will accredit the result to the single banner ad, rather than the radio ad or newspaper ad that the person saw in the morning, so all offline media are disadvantaged by attribution modelling. Furthermore, money is sucked out into what is called the ad tech stack, which is a very murky system. Somebody described it as taking sawdust and sticking it together to make MDF. They are things you would never buy—one person reading another person's blog—stuck together to make programmatic advertising; it is something that is of poor quality but is serviceable. An enormous amount of fraud goes on there, and advertisers have only recently been waking up to what is happening to their money.

Max Beverton: I can give you a perspective from Sky, as one of the UK's largest advertisers. We think really hard about this, and we struggle with lots of problems in the advertising value chain. Internally, we think about trying to make sure that any advertising that we put out is what we call HAVOC: human, audible, viewable, on screen and completed. The basic idea is that you want somebody to see the advert that is out there. As you said, different estimates have predicted that there is as little as 20p of working value from every pound invested in online advertising.

We try to get results in our contracts with advertising suppliers and the ad tech stack and ad exchanges, which Tess talked about, but it is tough. It is a market that has no or little trust and little accountability. There is nobody watching over it independently to give us surety as an advertiser that we are getting value. That is a problem.

Jonathan Allan: On the plus side, as premium publishers and broadcasters who invest a huge amount of money in making sure that our online digital product is brand safe, well tracked and completely human traffic, it gives us a huge advantage when we are selling in the marketplace that we can offer those things when the general online market is not doing so.

As Tess outlined, it seems that there has been real recognition in the last 18 months on the side of advertisers and their agencies that this is just not good enough. Therefore, we are hoping that the pendulum starts to swing back to good newspapers and good broadcasters, who look after their value chain and can offer something transparent and effective. We are trying to push that agenda with our clients and agencies.

Tess Alps: You might ask why agencies have not been hotter on this topic before.

Viscount Colville of Culross: Quite.

Tess Alps: Part of it is the market dominance of some of the players. No agency wishes to become the enemy of some of those tech giants, I can assure you. It has taken the advertisers themselves, I am afraid, to start the process of cleaning up that market.

Jonathan Allan: It is interesting. We have BARB, which is a joint industry committee that measures TV audiences and has done for many years. It is very trusted. Google, YouTube and Facebook have not even signed up to JICWEBS, which is the equivalent for online measurement. That is the very least we should expect of those players as the start of more accountability.

Viscount Colville of Culross: But Channel Four and Sky are both platforms and big advertisers. We have been told by other people who have come before us that it is up to the buyer to put pressure on the platforms, to make sure they get value for money. Why has that not happened from the start? You talked about how you were making advances.

Jonathan Allan: Yes. Why did that not happen at the start? When YouTube and Facebook in particular were nascent and small, it was felt that this was a new wave. People would test the new platforms and see how they went. Much of the buying was based on cost per click and cost per acquisition, so there was potentially less requirement for measurement of the actual audience they were delivering. That has clearly changed, because they are moving much more into the brand advertising space. I worked agency-side for 20 years. Clients and agencies have been slow to hold those platforms to account in the way that we used to hold TV companies and newspapers to account for their ABC or their JICREG.

Viscount Colville of Culross: Can we just leave it to the advertisers to sort this out, or does there need to be intervention to try to make something happen, to make it less fraudulent and less murky?

Max Beverton: That is a very good point. Comparing online advertising with television advertising, online advertising is primarily based on efficiency. It is about getting as much advertising out to as many places as possible, whereas television advertising is based around selling a premium product, selling the premium content.

In answer to your question, yes, there needs to be a system of accountability to an independent body that would look over these things and make sure that platforms are accountable for the advertising value chain, in the same way that, if Sky or Channel Four breaches the Ofcom broadcasting code, we risk our licence to operate. There simply is not the incentive or risk in the online world.

Jonathan Allan: That takes us to a different area. On measurement, I would support the players voluntarily signing up to form a joint industry committee with industry. That is the way it works in every other medium

in the UK. It is a very successful system. Pressure from regulators to do that would be helpful.

Where I would go more with regulation is on the actual advertising and content that appears on platforms, with regard to brand safety, fake news et cetera. They need to be regulated. They say that they are platforms, not publishers. There is probably a bit of debate about those two terms, but if you are watching television and you can flick from Channel Four to YouTube on your Samsung smart TV, the viewer would expect the same controls in that environment as you get from Channel Four, so I think there needs to be some regulation and oversight.

Lord Gordon of Strathblane: This question is to Max Beverton, if I may. In your evidence, you said that viewability was the currency for video advertising in the digital world. It is defined as "50% of the ad in view for two consecutive seconds". Are you telling me that grown-up advertising agencies buy on that basis?

Max Beverton: That is the IAB standard for viewability, yes.

Lord Gordon of Strathblane: People part with good money for that.

Jonathan Allan: For Facebook, it is a whole three—three seconds on Facebook. The way we measure TV is based on a thing called average duration weighted, so you have to have seen the whole ad for it to be charged. It is very odd that that is the accountable measure in the markets.

Tess Alps: That metric has been agreed with the industry, but under duress. Clearly, the price is probably a bit cheaper, but possibly not cheap enough.

Lord Gordon of Strathblane: It would have to be.

Tess Alps: Some of it is viewed for longer, but that is the minimum standard.

Q100 **Lord Allen of Kensington:** I would like to stay with the theme of digital ad fraud. All of you have commented on the problem. Tess, for Thinkbox, talked about it being "rife online", and quoted a figure of £16.4 billion in 2017. Max, your organisation identified that it was quite complex; it was not just one thing, but a multitude of things, including invalid traffic, malware, inventory fraud and infringed content.

The whole thing feels like a bit of a mess. What we would love is an insight, with practical things that the media owners, agencies, advertisers and/or regulators could do about it. It would be really good to get a couple of things that you all think could be done to move things forward. What is the stimulus? I liked your sawdust analogy, but the wood has been made. How do you break that, and how do you really move things forward? What will the stimulus be?

Tess Alps: First, it is really important not to lump all online advertising in the same basket. Advertising on ITV Hub or Sky Go is extremely safe,

with high content and brilliant context. The advertising on the *Guardian* online is high value and has good context. We should not put it all in the same bin.

There are clearly ways to improve the quality of online advertising. One of those is for platforms to take responsibility for where they place advertising. It is not good enough, in my opinion, for YouTube to give a platform to material that is either criminal or, indeed, worse than that, or certainly poor quality—let us be generous—and then to sell advertising against it to advertisers. I believe that platforms should take responsibility. They are the people writing the algorithms that say that advertising ends up there. That is an editorial process, not just a technology process.

The other thing they could do is to start from the other end. Rather than say, “Let’s chuck it all out and wait for something to go wrong, and then we’ll remove that bit of content”, they could start the other way round and ask what content is fit to put advertising against. Let us whitelist it, rather than waiting to blacklist stuff. They have enough money to do that, for all sorts of reasons, which we all know.

Jonathan Allan: Institutions such as ISBA and the ANA in the States have a big role to play. Increasingly, in the UK, ISBA is taking a more powerful voice to demand transparency in the supply chain’s contracting with agencies. ISBA is looking for better standards on viewability of video ads, higher than the ANA has asked for in the States.

In these arrangements, the buyer has to be clear what they are buying and should not accept a three-second view as acceptable for a certain price. Publishers, too, must take responsibility. We at Channel Four have a very close view on the viewability of our advertising. We know clearly what it is, and it is nearly 100%. From a human traffic point of view, you can use third-party software such as Moat to track your own product. We choose to do that, and we have it monitor our stuff, too. It is about everybody working together to deliver something that advertisers value and that is effective. If I was paying money for advertising, I would want it to be of the highest standard.

Lord Allen of Kensington: Do you think the agencies are conflicted? Facebook and Google are among their biggest clients. How do you deal with that conflict of interest?

Jonathan Allan: Clearly, the agencies have to have relationships with Google and Facebook, which are probably numbers two and three of their largest global suppliers. In certain contracts, there are incentives to put money in certain places rather than others. Agencies hold Google and Facebook to account to a degree, but Google and Facebook have huge direct client relationships. The agencies are increasingly disintermediated by those two global organisations, and there are lots of direct commercial deals between Google and Facebook and multinational clients. That can limit the agency’s ability to hold them to account.

Tess Alps: We are reasonably reassured that the large advertisers in the UK are very well aware of that and are removing some of their money from those platforms. To a large extent, they are funded by what we call the long tail of advertisers: the tiny butcher's shop in Fife or wherever. It is amazing how much money comes from very small operators. They will not have an agency, they will not even read the stories about ad fraud, and they are paying money for something that probably does not work very well.

Jonathan Allan: These are scale platforms. It is not easy to take all your money away from Google and Facebook unless you want to harm your business.

Max Beverton: I agree with the points that have just been made. It involves incentives for good behaviour and incentives for looking at ad fraud issues, brand safety or viewability. The incentive is that you want to continue to sell your online advertising product. At the heart of it, all those industry standards are very good and offer practical ways of dealing with the problems, but you can never quite get under the bonnet and see whether they are working and flowing through.

We are a very big advertiser, and we have a difficult time knowing how much of our advertising revenue goes towards addressing ad fraud or towards unsafe brand content. We are continually surprised at the terrible places where our advertising is found, even though we put a lot of effort into making sure that does not happen. There simply is not the scrutiny by independent bodies that you might expect for such an important part of the digital economy.

Lord Allen of Kensington: Can you build penalties into the contract to capture people who are doing something that is clearly fraudulent?

Max Beverton: We can, and we try to do that, especially with smaller ad exchanges, but we get the response: "If you build that in, we simply can't do business with you because Google and Facebook and others don't agree to that, so how can we agree to it?" The big digital players characterise the market in lots of ways.

Q101 **Baroness Stowell of Beeston:** I have some questions about statutory and voluntary regulation, but we have covered much of that ground already, so I will be briefer than I might otherwise have been, which allows more time for other topics. We get the message that you do not have much faith in JICWEBS as a self-regulatory body.

Max Beverton: They need to sign up to it.

Jonathan Allan: We have faith in JICWEBS; we would like Facebook and Google to sign up to it.

Baroness Stowell of Beeston: Okay. That is interesting. You are not so much questioning its effectiveness; it is more the fact that it is voluntary, and they are not volunteering.

Tess Alps: We want an independent third party to measure them. They are very good at telling people that they have all the statistics in the world, and they have so much data that they will hand it out for free to advertisers, but there is nobody scrutinising it from an impartial point of view. We have found that Facebook has issued incorrect numbers, saying that it reaches more people than actually exist.

We need independence, and that is what JICWEBS would do. We would like to be broadly right, as BARB is and as RAJAR is, rather than precisely wrong, which is what internet measurement is.

Baroness Stowell of Beeston: As regards a level playing field between online platforms and yourselves as traditional media, from what you have said, there does not appear to be much by way of equality. You said something earlier about a review that Ofcom is doing on product prominence. Is there a risk that, in order to address that out-of-kilter playing field, you might end up pressing for more flexibility for television advertising, as opposed to tightening of online? Where is the tension?

Jonathan Allan: As far as I am concerned, there is absolutely no tension. We are very comfortable with the regulation we have, and with compliance. It adds to the value of television that we are so compliant and have that regulatory framework. We take it very seriously, from a content and an advertising point of view.

We are responsible for delivering compliance ourselves. We are not asking to dumb down our regulation to their level; we would like them to come up to us, as we think it works very well. There are always things at the edges that we would like to have a conversation with Ofcom about, but, generally, the framework has worked particularly well. We are the envy of the world as regards how we deal with stuff, whether it is minutage or content. It is a good system, which has been well devised over the years.

Max Beverton: I absolutely agree with that. We trade off the brand safety of television advertising. Most of the UK population does not understand how broadcast advertising works, or that advertising has to go through two weeks of Clearcast process in order to get on the telly, but they have a sense that it is safe or that there is a guiding hand, with people looking after the trust and responsibility that they would expect from television.

I agree with Jonathan. We are not looking to undermine that trust. We are very happy with the regulation that is imposed on us for television advertising, and we would be happy to have regulation for our online products, too.

Jonathan Allan: The way Ofcom goes about regulation is very evidence based, and we always tend to agree with Ofcom's findings and so on.

Tess Alps: There is always the short-term lure of deregulation, but we know that consumers want more protection; they deserve it, and that is

what broadcast television does for them. It dismays us to find that the very high-quality programming that broadcasters put online is not given any beneficial status versus fake news and rubbish content. That seems extremely iniquitous. We want to keep our high standards, but we do not want to be commercially disadvantaged for doing that.

Baroness Stowell of Beeston: Are there specific things that you would want your regulators, Ofcom and the Advertising Standards Authority, to do in this area that they are not specifically doing now?

Jonathan Allan: There is the whole compliance of content. At the moment, they seem to be absolving themselves of any responsibility from an editorial perspective. They say, "These are platforms on which anything can be uploaded. When people notice that it is not quite right, we will take it down". The CEO of YouTube said this morning that it is trying to get one step ahead of what is going on. I suggest it is three steps behind. Although it is employing more and more people to receive complaints, it is not actively looking at its own content first.

We have a huge responsibility, as TV broadcasters, to ensure that everything we put out meets the Ofcom guidelines, for good reason. The scale and reach of Facebook and YouTube are becoming equivalent to some of the smaller TV stations. We think it is important that there is equivalence. We recognise that it is difficult, but we also recognise that these companies have huge revenues, huge profits and huge resources, from a human perspective and from a technological perspective. I cannot believe that it is not solvable. They are choosing not to invest in it, as opposed to the fact that it cannot happen.

Baroness Stowell of Beeston: Do you get any sense that there would be unwillingness on the part of the regulators that exist now to get involved if they had the powers, because it is such a massive thing to be responsible for?

Jonathan Allan: I have heard Sharon White speak at a few conferences. Ofcom has said that it would find it difficult to regulate the internet, and I understand that position as regards resources. However, perhaps there could be a more staged approach, with a code of conduct and some rules and regulations applied, rather than a wholesale move from where we are now to a full framework of regulation. If it requires funding, those players have huge funds, and they do not seem to be paying a lot of tax to us either, so that is potentially another way of getting the funding.

Max Beverton: I agree. This is not about regulating the internet. The internet is a distribution platform that includes networks and providers. This is about regulating specific actions of online players or specific companies in a certain category. It is not about providing an entire framework to cover the internet.

A good example of where it would be great to start is Baroness Kidron's amendment to the Data Protection Bill, which is currently being considered. It would give the Information Commissioner's Office power to

ensure that services designed for under-18s are designed with safety by default. That is something that Sky supports, because that is how we design our services. We would be very happy to be regulated to make sure that we provide safe services. It is important to get into those little areas, rather than trying to devise a whole new framework for regulating the internet.

The Chairman: We will hear from Baroness McIntosh briefly; then we will move on.

Baroness McIntosh of Hudnall: Actually, Baroness Stowell more or less asked the question that I wanted to ask about how the regulators view the issue now, and I can see that, if you construct the question as, "How do you regulate the internet?" the answer is, "You can't". Could you explain, from your perspective, how you could? What influences are not being used that might bring Google and Facebook into the net and get them to accept that responsibility?

Are there things that could be done? For example, you have to be licensed to operate in this territory and elsewhere. Are there issues to do with the way they are licensed to operate that could be raised and are not being raised? Were they to be reliant upon a licence to operate in that sort of way, could the current systems of regulation, as you see them, be expanded to provide the oversight and the sanctions? It seems to be critical that, in the end, you have to have a sanctions regime. I know that sounds awfully finger wagging, but you have to have a meaningful sanctions regime if you are to bring big players into line. Is that not the case?

The Chairman: Could you respond to this briefly? It is quite a big subject. You may want to write to us afterwards in a bit more detail if your thoughts develop. A brief response, please.

Jonathan Allan: Max is obviously more of an expert on public policy than I am. Germany has done some interesting things.

Max Beverton: You have hit the nail on the head, Baroness McIntosh. For us, it is about oversight and sanctions; it is the ability to get under the bonnet and find out what is happening, not just taking promises as promises, and then being able to have recourse if we do not feel that those promises are being delivered. We can write further to the Committee. Our chief executive made a speech on this last week, and wrote an op-ed in the *Times* on exactly those ideas about principles for regulation and perhaps a new internet commissioner, who could take on that role and have those oversight and sanction powers. I am happy to write to the Committee on this further.

The Chairman: Perhaps you would send us that, or we will find it.

Jonathan Allan: We would love to start that conversation, which does not seem to have started as yet.

Tess Alps: There is also an issue around market dominance. In many other markets in the UK, we would not tolerate that or, if we did, we would impose some sort of monopoly tax to help pay for the damage done elsewhere.

Jonathan Allan: I read this morning that the Australian Competition and Consumer Commission has opened an inquiry into the market dominance of Facebook and Google in the digital market. It is happening elsewhere.

Baroness McIntosh of Hudnall: There is stuff out there.

Jonathan Allan: Yes.

The Chairman: Thank you. We will look that up and we would be happy if you could send us anything you think we would find useful.

Q102 **The Lord Bishop of Chelmsford:** It would be very interesting to hear more about that. I hope you will give us something in writing.

I want to take us to another area, to do with the regions and SMEs. You are both advertisers and recipients of advertising revenue. One of the things that we have been exploring in other areas is creative clusters to help smaller enterprises and to help the regions. How do you think that you, as broadcasters, could help boost that?

I gather that Channel Four has launched a commercial support fund to encourage SMEs, and that Sky has set up an advice something or other. It would be good to hear a bit about that and about the way we encourage the regions and smaller people to be involved.

Jonathan Allan: Channel Four has always supported the nations and regions, from its very inception. We have spent about £1.5 billion over the last decade in the nations and regions. We have licence quotas to spend at least 35% of our commissioning budgets outside London. We regularly and consistently overachieve that, delivering about 40%. For Channel Four, stimulation of the nations and regions is mainly about how we spend our commissioning spend, with the multiplier effects and local GVA. We have a huge sales team in Manchester, which is very successful. It has doubled or trebled its billings over the past four or five years. From a commercial perspective, we are very active in the regions. We have seen good growth there. The local Manchester-Leeds advertising economy is thriving at the moment, which is really good to see.

We have loads of content that is made from the regions; "Hollyoaks", one of our long-running soap operas, comes from Cheshire and Liverpool, and "Ackley Bridge" was a new drama that we based in Halifax last year. We do a lot in the nations and regions, and we really believe in that. We believe in reflecting those areas. You will all be aware that we are in active dialogue with government about how Channel Four could do more in the nations and regions, and we are very positive about that conversation, and we want to do more. We are in active dialogue.

The Lord Bishop of Chelmsford: What about encouraging smaller SMEs to use advertising?

Jonathan Allan: Yes, I can talk specifically about that. We set up the commercial growth fund two or three years ago. It is primarily aimed at start-up businesses that may not have the ready cash or capital to invest in TV advertising but would clearly benefit from its multiplier and accelerator effect. We exchange television airtime for equity stakes in the businesses that we invest in. They are very small ones, usually between 1% and 5%. That allows them to get on to television for no cash outlay; it is just an equity outlay. We have had fantastic success with lots of UK businesses.

Eve mattresses was a start-up we invested in a couple of years ago. It has grown really quickly since coming on television. It IPOed on the Alternative Investment Market earlier this year. Its share price is doing very well, and it is growing very well. That is a great case study of how Channel Four can help British business and how TV advertising can build great case studies to sell across the board.

The Lord Bishop of Chelmsford: I will let Max come in, but while you are on a roll let me feed in my other question. Are there things that government could do to help develop that and to promote demand?

Jonathan Allan: For advertising?

The Lord Bishop of Chelmsford: Yes. It is interesting to see the impact that TV advertising can have on a small business. As you say, it is very hard for them to cross the initial threshold.

Jonathan Allan: The Government are quite active in supporting businesses with capital investment. We work with and alongside government agencies. The Advertising Association has suggested some kind of tax break for SMEs on advertising—some kind of corporation tax relief. If you view advertising as an investment, which I am sure all of us on this panel do, that would be quite a good idea. We are supportive of that. The AA is setting up an online hub to explain how advertising works—how you can buy advertising and how you can make advertising. It can be quite a big leap in the life stage of a business going from not advertising to advertising. More information and more local hubs would be a good thing.

Tess Alps: We participate in that. We are a 20-person band, but we run free training and we stream our training. We have events especially for people who have never used TV before, and all free. We do our best.

The Chairman: Do you have anything to add, Mr Beverton?

Max Beverton: Yes. We are passionate about local advertising. It is one of the biggest growth areas in our business. We have a product called local AdSmart, which allows brands to use targeted local advertising, with a target based on household characteristics. That enables small businesses to compete on the same scale as national brands. It allows them to get into what we have talked about for this whole session—the

power of television and the trust and accountability that a local brand can have.

We have put a great deal of effort into getting businesses to make that leap. We have built TV advertising formats into which they can drop their own content, but it looks like a professional TV ad. We have helped them with creative development funds, too. The most important thing that we have done is to make TV accessible at a very low cost, so that people can advertise for as little as £3,000 for a campaign. We are very confident about the power of TV to grow a business, and bringing that to a local business is very important.

In answer to the second question, we are very supportive of the Advertising Association initiative on the call for a tax break. The way the AA talks about that, which I like, is that the innovation tax break was about developing IP, and an advertising tax break would be about exploiting that IP. That is how the Government can help.

The Chairman: Thank you.

Q103 **Baroness Bertin:** I declare an interest: I work for BT Group.

Let me bring us back to a subject that we have not yet touched on but is at the forefront of many of our minds, for good or for ill: the international and EU dimension, with the UK coming out of the EU. We have asked nearly all our witnesses about this subject, as it will form the thrust of our report. My first question is quite a general one. What is the importance of international advertising for your industry in particular?

Jonathan Allan: International advertising is particularly important for television. We have a high preponderance of multinational business; the likes of P&G and Unilever are very big and ongoing investors in TV. International advertising is hugely important for us.

We are unsure as to the ultimate impact of Brexit and what may happen. However, the main impact of the vote was a massive sterling devaluation. That impacted on the revenue and profits coming out of the UK to those multinationals. We found that the TV market was up by 4% or 5% in the six months preceding Brexit. It was down 4% or 5%, year on year, in the six months afterwards. That was mainly around the sterling devaluation. The discretionary spend within a business tends to be marketing. Therefore, as businesses sorted out their balance sheets and their revenues coming out of the UK, we felt quite a stark shock. That seems to be flattening out a bit now as the exchange rate devaluations wash through their balance sheets and revenues. However, it is still causing quite a lot of consumer price inflation, which means that demand is potentially throttled a bit.

There is a lot of uncertainty. Advertising is a business investment. When people do not quite know what is going to happen, it makes them a bit more risk averse when they invest. The ad market has definitely plateaued to a degree. Outside that, as I said in my opening statement, it is important for us, post Brexit, to get equivalence with EU regulation as

much as possible. Lots of good work has been done on AVMS over the past two or three years. To keep that equivalence is really important. UK TV production exports are worth £1.3 billion to the UK. We are the number two TV exporter in the world, and grew 10% last year, so the country of origin principle in AVMS is very important.

Baroness Bertin: Could I just come in?

The Chairman: I am sorry to interrupt. With apologies, I have to ask our witnesses to be reasonably brief on the remaining questions, as we are running short of time.

Baroness Bertin: It is a complex issue and it is a complex industry. Do you think that the people fighting on our behalf, specifically the negotiators, understand the complex issues around what matters to your industry?

Max Beverton: We spent a lot of time talking to the Government about this, as has the Commercial Broadcasters Association, which really is the expert on the country of origin principle and the impact it will have if we do not have regulatory equivalency for licensing for broadcasters in the future. We have spent a lot of time trying to get them to understand it. It is a complex area, and culture is not an issue that is included in trade deals very often.

Baroness Bertin: I am sure that others will want to come in, as this is so relevant to the report. In general terms, what approach should the Government be taking to develop new relationships to make sure that the brave new world is as successful and profitable as possible for the industry?

Jonathan Allan: Generally, the UK creative industries are a huge exporter and a massive boon to the UK economy. Within that, TV is massively successful and has been very successful over the last 25 years.

Tess Alps: On advertising as an industry in itself, Britain is often seen to lead the world. Often, marketing services groups are based in the UK for their EMIR business. There is talk that some of those might move to Paris.

Jonathan Allan: New relationships are really important. We are a global player, and having better relationships around the world will help us. The AA has been very active with government, visiting China and elsewhere to try to forge more relationships in those areas.

Q104 **Lord Goodlad:** I declare an interest as a member of the advisory board of GovNet Communications Ltd.

I have two related questions. First, how do you think our universities, the Government and the private sector should better co-operate to help the advertising industry and the creative sectors of the economy connect with innovation and research? Secondly, how do you view the apprenticeship levy scheme?

Tess Alps: We spend a lot of money on research and we find that the universities that we do research with are very welcoming to companies such as ours to co-fund research for them. We have worked with Durham and Brighton Universities on various projects.

Generally, with skill sets, technological subjects are clearly important in universities, but we are anxious about that being overemphasised at the expense of the humanities. We feel that some of the difficulties we are finding with online advertising have arisen because too many technologists have perhaps not been balanced by enough humanities people, who have a sense of the emotional, human and moral framework in which to put that technology. When it comes to subject balance, we feel that we indeed need STEAM rather than just STEM. We have no experience of apprenticeships at Thinkbox.

Jonathan Allan: Channel Four has 17 apprentices at the moment. The scheme works quite well for us. We are quite a big organisation, and it has been a good incentive to get involved. The apprenticeship scheme can be quite blunt for smaller organisations. Small independent production companies have less room to take in apprentices. They also have quite a lot of freelance people coming in and out, depending on what business it is, so the levy could be quite difficult to navigate.

Max Beverton: We have 170 apprenticeships at Sky across our business, which is very broad. Apprenticeships are very important for our business and for building the technology skills that we need to compete on a global level. It is also important to upskill people. We have a programme in Leeds to get women back into work and into technology roles. Technology skills are not just about complex data analysis; they are about general understanding of all the systems and processes that will enable us to train up people who can work in the more digital and technologically complex areas of our business, where we need to continue to invest in order to compete.

Tess Alps: The success of TV programming and TV advertising is certainly about technology, but it is also about writing, storytelling, filming and editing. Those are creative skills. The reason we lead the world is that we are brilliant at those skills, as well as technology.

The Chairman: That is a good note on which to end. I thank our witnesses for their evidence and their comprehensive responses to our questions. There may be one or two issues that we have raised that we want to follow up with some further dialogue with you, but thank you very much for your evidence today and for appearing before the Committee.