



Select Committee on Communications

Corrected oral evidence: Public service broadcasting in the age of video on demand

Tuesday 23 April 2019

4.35 pm

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Members present: Lord Gilbert of Panteg (Chairman); Baroness Benjamin; Baroness Bonham-Carter of Yarnbury; Baroness Chisholm of Owlpen; Viscount Colville of Culross; Lord Goodlad; Lord Gordon of Strathblane; Baroness Kidron; Baroness McIntosh of Hudnall; Baroness Quin.

Evidence Session No. 4

Heard in Public

Questions 41 - 46

Witnesses

I: Mark Oliver, Chairman and Co-Founder, Oliver & Ohlbaum Associates; Dr Cento Veljanovski, Founder and Managing Partner, Case Associates.

USE OF THE TRANSCRIPT

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

Examination of witnesses

Mark Oliver and Dr Cento Veljanovski.

Q41 The Chairman: Welcome to our next witnesses, experts and analysts, who are going to give us the benefit of their views and expertise. We are very glad that they have been able to join us. I should tell you that the session is being broadcast online and a transcript is being taken.

Can you briefly introduce yourselves and tell us a little about your background and then answer an initial question for us on our inquiry into the future of PSB, which is to define PSB? What is public service broadcasting, and will it take a different form in future from the form that it takes now?

Mark Oliver: I have been looking at issues of TV, the internet and public service broadcasting since 1986, when my first job was working for this man, Dr Veljanovski. We were on a research team working for the Peacock committee in 1986. That was my first job, but not, I think, his first job. Then I joined the BBC and became its first head of strategy in 1989, and stayed for six years, doing lots of different things. From 1995 onwards, when I started my own advisory company, I have been advising anyone—investors, web companies, TV companies, producers and sports organisations—UK and internationally, for the last 24 years.

The Chairman: What is PSB, and is it going to change?

Mark Oliver: Start with the big question. I do not think that what public service broadcasting is will change; how it is delivered and how it is manifested will. Public service broadcasting is broadcasting content aimed at a public purpose; it is not aimed at a private, profit-maximising purpose. It is probably not even aimed at a pure consumer purpose—consumer demand—because that is pay TV. It is aimed at a public purpose.

A narrow view of the role of public service broadcasting is that you simply fill in the gaps that the market leaves, so there is a market base of advertising-funded television, added to by pay TV television, which has developed a lot over the last 20 years, and on-demand television. Public service broadcasting's main role is seen as filling in the gaps, but I do not see it like that; I see it not just as filling in the gaps but as raising the level.

That is important because the gaps will get narrower; the market is now providing a lot more, in a bigger range and with a larger number of price points, than it did even 10 years ago. You can argue that even if Sky is expensive at £80 a month for the full thing, Netflix is a lot cheaper. The market will keep developing new alternatives and new technologies, so if you say that public service broadcasting is just that which the broadcasting industry does not provide, that is not sufficient; it has to raise the level and provide it to all, because, obviously, pay TV does not do that. Then it is public. That is what I see as public service broadcasting.

As I said, how public service broadcasting manifests itself may have to change, in the balance between filling gaps and raising the level, in providing something to all, and how many people you have to reach with that. Providing something to all does not mean that everybody consumes you, because they have a lot of choice. How we assess it may change; we may have to assess it less in terms of reaching everybody every week, which is becoming increasingly difficult, and maybe assess it in the sense that it has impact, with a large number of people a lot of the time, and that is a much less demanding constraint.

In that respect, the BBC still has a way to move; it is still chasing 90% reach and gets very worried when the under-35 reach drops below 80% per week, but that is almost inevitable. It needs to ask whether it is having impact at least once a month or once a week, not looking at the reach figure. That is harder to measure but probably more important to society and the public.

Commercial broadcasting does its public service bit. Channel 4 is very different from ITV and Channel 5, which are profit-maximising broadcasters that have a certain number of licence obligations, which gives them privileges and obligations. There is a balance between the two as to whether it is worth their while to take on the obligations for the privileges; that is a calculation.

Channel 4 is a public service organisation; its main constraint is sustainability and whether it has the money to do something, given that it has to raise money in the advertising market, which is competitive. Does it have sufficient money to cross-subsidise from some of the higher reach and more popular programmes to some of the lower reach and more public service programmes?

Channel 4's future commitment to public service is very much about its sustainability as a business model, whereas ITV's commitments are about the pluses and minuses of the contract with the regulator, and how much juice there is in the privileges to fund the obligations. That may have to change; if the relevant privileges go down, what you get for the obligations has to change. For Channel 4, if its business model comes under attack from the web players that try to take some of its advertising, the model may become unsustainable, which means that its whole commitment to public service content may become undeliverable.

The Chairman: Thank you. Dr Veljanovski, we have the same question for you after your introduction. What form does PSB currently take and how do you see its delivery changing?

Dr Cento Veljanovski: I am a managing partner of Case Associates, and an economist. As Mark mentioned, I was an adviser to the Peacock committee. In the 1980s and early 1990s, I was heavily involved in broadcasting media markets, doing ITV franchises and working for various broadcasters on business plans. I was director of the Institute of Economic Affairs, where we pushed heavily for a market-oriented broadcasting sector.

These days, I am more of an expert witness, and I am cross-examined by very expensive commercial barristers, so I look forward to the questions here. Presumably, I have been called here to provide a sort of robust view of an alternative model of public service broadcasting. No offence, but I do so somewhat reluctantly, because the debate over public service broadcasting in the past has been exhaustive, exhausting and fairly inconclusive at times.

I start where we almost started this discussion, with the Peacock committee, which set out a context in which the concept of public service broadcasting should be considered.

If I may be permitted, I shall quote from two articles that I have circulated, or at least given to the clerk, which exhaustively express my views or opinions on this matter: "British broadcasting should move towards a sophisticated market system based on consumer sovereignty. That is a system which recognises that viewers and listeners are the best ultimate judges of their own interests, which they can best satisfy if they have the option of purchasing the broadcasting services they require from as many alternative sources of supply as possible".

That was written in 1986, when the availability of alternative sources of supply was very constrained, in the interests of public service broadcasting. A battle then took place to try to open up the market.

That approach is basically that the role of public service broadcasting should not be to replicate, replace, compete with or otherwise duplicate what the commercial sector can do. It is sometimes described as the market failures approach to broadcasting, although that is a bit of a misnomer, because people will pump into the notion of market failure anything that they do not like about the market. It has a very specific meaning to economists, in the context of the Peacock committee framework, which is consumer sovereignty—the viewer knows what they want. Let me be clear: the fact that Netflix can outbid or out-fund the BBC is not a market failure. The fact that new commercial services do what the BBC does, or do it better, is not a market failure. The fact that the new media undermines the BBC or public service broadcasting concepts is not a market failure. The fact that the BBC does a lot that the market can do and crowds out commercial services is not evidence of market failure and cannot be used as a justification for public service broadcasting.

I had the opportunity to listen to the previous evidence, not the ISBA evidence but the pro-public service broadcasting academics' view. I listened to them very carefully and realised that the debate has not moved on too much from the 1980s. I feel that a false dichotomy is being set up between public service broadcasting, which seems to be defined as "good" and "British", and commercial media, which seems to be characterised as "bad" and "foreign". At the last Committee hearing, Professor Barwise repeatedly did that, with the claim that commercial broadcasters will do only what is in their commercial interests. This was offered as an indictment, with the not so subliminal message that they were going to offer the viewer a bad service.

I remind the Committee that the public service broadcasting we have today, and have had for several decades in the past, was the joint result of Reithian paternalism and commercial forces. When ITV launched, the BBC lost 70% of its television audience because of viewers' choice; the BBC was immune from competition and was not giving viewers what they wanted. Professor Barwise told the Committee that the BBC is cheap on a cost-per-hour basis and therefore very attractive.

On that basis, ITV is even cheaper, as it offers TV at zero cost. The plethora of free online and internet-based services overwhelm all of those on a cost-per-hour calculation. He offered the definition, somewhat glibly, that public service broadcasting is what public service broadcasters do—hardly rigorous or acceptable.

To conclude with someone who is an insider—I am very much an outsider—some of you may have seen the *Sunday Times* magazine article by Roger Mosey, a former editorial director of the BBC, entitled "You OK, Auntie?" He made many propositions in that article, but two stand out for me. One is on the failure of BBC news, which is the flagship of public service broadcasting, which he said had a feeble response in peak times to the Brexit debate, quoting a BBC executive saying: "Anyone inside the BBC who says we have covered Brexit with distinction and distinctiveness is deluding themselves".

More importantly, Mr Mosey concluded that the BBC is doing too much and is unfocused; it should be doing fewer, bigger, better. That does not mean meeting the competition but doing something different. To extrapolate, it means not protecting the current institutions of public service broadcasting but enhancing the choices available to the viewer and listener.

The Chairman: There is plenty in both of our witnesses' initial responses to get our teeth stuck into.

Q42 **Baroness Chisholm of Owlpen:** Dr Veljanovski, in one of your articles you said, "the core issue today is whether, given the pace of technological change and changing viewing habits, two state-owned broadcasters are compatible with a free society and viewer choice". Your answer to that was no.

Dr Cento Veljanovski: Correct.

Baroness Chisholm of Owlpen: Do you feel that there is actually no place for PSBs and that we should not be worrying about the five key principles any more? How can public service broadcasters respond adequately to make sure that they can carry on existing, or do you think it will not matter if they do not exist any more?

Dr Cento Veljanovski: I am tempted to say that it does not matter, but I shall be a bit more subtle. I think a question was asked during the Professor Barwise hearing about whether we are confusing devices with content. The confusion goes much wider than that; it confuses devices, content, programme production, organisations and funding. At the moment, we seem to regard the BBC in particular as synonymous with

public service broadcasting, hence Professor Barwise's comment that public service broadcasting is what public service broadcasters do. I think, in perhaps an overanalytical way, that those are all separable.

Obviously, the BBC buys in its transmission services from an outside company and buys in a lot of content from outside programme producers. It hires people in the marketplace for talent. Public service broadcasting does not have to be publicly produced. The organisations of public service broadcasting are a product of incremental policy over decades, in which, as a palliative to criticism, or the lack of choice being offered, and the increase in technology, the Government have allowed, first, another television channel—ITV—and then Channel 4, to deal with the complaints of the programme producers that they were being squashed down by the monolithic public service broadcasters. Then there is a Welsh channel.

The structure and the organisations of public service broadcasting have grown up around that model. We are now in a different world. To put it bluntly, we are all broadcasters now. We can all jump on YouTube and transmit our own biased or impartial views of what we are about. The technology has moved on so far, and certainly much further than the Peacock committee envisaged. When Peacock made his recommendations, he asked the Government whether there was a possibility for a Channel 5, and they told him no. That is why he proposed the arts council of the air as a way of introducing competition.

In the article you referred to, when I was heavily involved in the debate, I asked why we did not just switch the remits of Channel 4 and BBC 2, and privatise Channel 4. That would give the BBC more of a role in public service broadcasting and take away from the commercial broadcasters the public service obligations. There is a big question mark over the organisations, because the problem is that they ossify and then have to be regulated. They play the regulatory game and sometimes, as the article by Mr Mosey pointed out, there have been disasters from the BBC for its future continuance as a premier organisation.

Baroness Quin: In the changing environment that you have described, can there be across the board some kind of regulation on the informing and educating role as regards accuracy? You talked about what were seen as the shortcomings of the BBC over some of its news coverage, for example. Is there a way of looking at the whole picture for media, linear television and video on-demand services such that they could be subject to a need to be accurate in the news that is given out? I am sorry if that sounds vague. I can see that there are shortcomings in existing coverage by public service broadcasters and, at the same time, shortcomings in the services provided by other providers. Is there a way of regulating fake news and false information?

Mark Oliver: There is regulation of public service broadcasters on fake news. The problem with the BBC and the news is the lack of institutional willingness to address a difficult subject properly, and a lack of willingness to inform people about the key bits of information and arguments that they need to know—about trade, for example.

Where is the big probe on the BBC about our role in world trade—the facts about our trade with Europe versus with the rest of the world, integrated supply chains versus opportunities in the Far East? It has been nowhere. All we know about is chlorinated chicken—that is the only thing we know about trade—or car manufacturers that have to keep reimporting their parts and do not want to do that. We know nothing about trade. There is a lack of institutional willingness to address the issue in the way a public service broadcaster should.

Cento has a view that public service broadcasting should get smaller than the market. I think the market will challenge ITV and the BBC much more than it has done. It is not public service broadcasting that has changed; it is the way it is delivered and what it should focus on. The thing the BBC should focus on is explaining the difficult issues, which everybody else finds really difficult to explain, in a way that the public understand, and not holding back from that. Just having one side and another side—Punch and Judy—is not the way to explain things.

Baroness Quin: Is the market going to sort that out, or is there some other solution to the problem you have described?

Dr Cento Veljanovski: There are two models. One could be that the BBC should get more analytical in its coverage, present the facts and deal with the issues in a way that is not trying to get interviewers interrupting people constantly, heckling them and telling them to apologise for something that has gone wrong.

The Chairman: You could make that an obligation, but it would be a very precise obligation. Are you saying that you could take a much tighter view of the PSB obligation and make it more precise about the things that society really cares about?

Dr Cento Veljanovski: That is one aspect. It reminds me of the Australian Prime Minister who said that the only interruption he would tolerate was applause.

The other model is that we have a huge number of different news sources competing with each other, and people can pick and choose which news source they want and how. There is the idea that impartiality is a child of a monopoly broadcaster, which has to reflect all views, but when we go into a competitive environment and buy our newspapers—to take that model—we buy a particular newspaper that reflects some of our biases and prejudices in the type of information we want. The market can deliver different types of news. That is an alternative model.

If there are concerns about fake news and defamation, there are laws that can cover those particular types of issue. I do not see that we need to regulate people giving their views, because there is a diversity of views. If I might play to the gallery, people hold quite different views about Scotland versus England.

Baroness McIntosh of Hudnall: Given what you said in your earlier answer about the ossification of broadcasters, when I imagine that you had the BBC mostly in mind, although perhaps not exclusively, do you see any value in thinking of those things as the building up of institutional

value rather than as ossification?

I ask the question in all sincerity. Around this table, we are all, I am afraid, of a certain age, and we have a long history of understanding and being part of a public service broadcasting environment that until very recently was minimal in the number of players. Now there are many more—we can all take that point—and I understand completely that we must try, however hard it is, not to be nostalgic for a world where things were not as they are now. However, do you see in your analysis any place for the accumulation of institutional value inside organisations such as the BBC?

Dr Cento Veljanovski: I can give you an answer from my own experience, oddly enough as part of a think tank. Some think tanks have a professional staff, and after a while they get property rights in what they are doing; they want to stay on and they burn out.

The other model of a think tank is to buy in the best people, who can write the article or the book. That was the model the IEA pursued: it got Nobel prize winners, such as Milton Friedman, to write articles and books. Other think tanks just developed a cadre of people who burned out and ossified.

As to whether there are institutional economies of scope and scale that arise in organisations, Mark is probably in a better position to answer in respect of the BBC. A mindset starts to develop in organisations that are controlled by people of our age who have a different world view and are conflicted by many cross-currents, so I am not overly impressed by the fact that we have had an organisation for nearly a century and we should continue with it.

The new media companies have developed different ways of doing things; they have listened to what consumers want and provided that in the marketplace, and lost and made money. Jostling in the marketplace is what invigorates people, rather than an institution that keeps trying to justify its existence and plays a regulatory game with politicians over the licence fee.

Baroness McIntosh of Hudnall: Would I be right in thinking that that is a view you would take of institutions in general?

Dr Cento Veljanovski: Possibly, yes.

The Chairman: Mr Oliver, can we have your thoughts on institutional value?

Mark Oliver: There is a very big issue about public institutions and how they stay innovative, given their remit, and about ossification. The BBC in the past has not been immune to that. I was there at a time of upheaval, brought in by a director-general who believed that the place had to change, in a background set by the Peacock committee. It was the Peacock committee's fundamental challenge to the BBC that made the BBC respond as it did. That is a big task for any big public organisation.

The BBC operates in a marketplace of attention. It is not a public institution that has no peers, in the sense that it does not have anybody

to rival it; it is not a railway operator running only on one line. It has some dynamism, which is a constant tension in the BBC. There is institutional oversight and its tradition, and there is the need to respond on BBC 1 to ITV, on Radio 1 to commercial radio, or on BBC Online to Facebook, et cetera. That tension sometimes drags the BBC into just chasing reach and share, because that is how it is measured, and maybe too far away from public value. The job of the management of the BBC is always to keep those things working together and say to controllers who want more share this year than last year, "Actually, we are not going to do that at any cost. We have a public purpose".

As an institution, yes, it ossifies, like all public institutions. It needs an overhaul every so often, and Governments are aware of that. But it is an institution that competes in the marketplace, unlike many other public institutions. Therefore, it is constantly under pressure in some ways to respond to the market, which makes it more dynamic than some public institutions that are somewhat apart from the marketplace. That leads to many of its mistakes, because it tries to replicate the market too much, which is what Cento and I agree on.

The Chairman: We need to move on. All members of the Committee are trying to catch my eye on some of the issues that you have raised. We will move on, but we will try to come back to some of those points later.

Q43 Lord Gordon of Strathblane: I provided evidence to the Peacock committee all those years ago, and I fully recognise that the game has moved on since then. The challenge to the licence fee requires different answers from those that were given to your Committee way back 30 years ago. I wonder whether the start of it might be to recognise that the market failure idea is outworn and that we might get different answers if we used the word "citizen" rather than "consumer". Would you agree?

Dr Cento Veljanovski: No. I would not know what that really meant.

Lord Gordon of Strathblane: Well, to take the evidence that we got in a previous inquiry, somebody mentioned that the internet unregulated would make life wonderful for the consumer but it could be the end of democracy. I am echoing a similar note. I would be slightly worried that people such as Google are playing for world influence—I will not use the word "domination", because that has a certain pejorative sense. I can get the highest placed advert just by paying more money; I could probably get a news bulletin influence just by paying more money. That may be healthy enough for consumers, although I doubt it, but it is hardly healthy for citizens in a democracy.

Dr Cento Veljanovski: I am still struggling, even with the example. If we are talking about the Googles of this world, there are concerns about them.

Most of my work these days is in the competition law area, as an expert witness. The big debate in competition law is about whether we have been too lax with online purveyors of video entertainment and shopping. Worldwide, there are inquiries, such as the Furman inquiry here; the

European Commission has produced a report, and the Australian ACCC—the competition regulator—has produced a report.

In reports in the United States and across Europe, we are trying to grapple with a lot of the issues raised by new technology. The issue can be largely resolved by the application of competition law to rein in companies when they are doing anti-competitive practices, such as blocking other content providers and, in particular, acquiring the killer apps that are starting up so that they can preserve their own market position.

Changing tack, looking at Ofcom's statement about the purposes of public service broadcasting, one or two of them struck me as interesting but potentially dangerous. One is about creating a cultural or national identity of Britishness, and the other is about multicultural diversity, which seem slightly opposed to each other. In a different setting, those types of statements, particularly on creating national identity, would be a recipe for state intervention of an undesirable nature.

I was born and brought up the son of an immigrant in Australia, where we had a very multicultural thing. The one thing that made us all Australian in the end was mild prejudice: "Why don't you speak English?" and "Who are you?" Eventually, first-generation Australian immigrants in particular became very Australian. Those types of citizenship issues are much more complex than those purveyed by public service broadcasters and what they are presenting to their audiences.

Lord Gordon of Strathblane: I agree that they are complex, but would you agree that they cannot be ignored, and they might give us different answers, rather than regarding people purely as consumers?

Dr Cento Veljanovski: I certainly agree that they would give different answers, yes.

Lord Gordon of Strathblane: Should we be asking that question?

Dr Cento Veljanovski: We can ask the question. I think you are asking what my answer is to the question. I do not have an answer to that question.

Mark Oliver: But it is the essential question. As the market provides more and more for consumer needs and wants, we have to deal with competition issues to make sure that people do not exploit a monopoly, and as advertising-funded television has made some of that available free of charge to the audience, there is a large plethora of choice available to people.

Serving the consumer and the public interest becomes the essence of what public service broadcasting is. Cento does not believe that there is a separable one, or, if there is, that it is very dangerous for one organisation—

Dr Cento Veljanovski: I thought we were going to be on the same side.

Mark Oliver: We are sometimes. We started down the same road, but I think we have ended up at a slightly different destination. What

broadcasting was needs to change and there will be more choice in the marketplace, which will change what public service broadcasting needs to deliver. That is where we agree.

Where I think Cento goes is that that means that there is a smaller and smaller role, and anything beyond consumer sovereignty is rather dangerous to get involved with and you should not really concern yourselves with it. It can be very self-defining: "We are the citizens' broadcaster, and what we do is for the citizen". I would say that it may be dangerous and difficult, but it is essential.

Lord Gordon of Strathblane: In the second of the articles you sent us, you were very defensive of the cable industry, which you thought had been sabotaged by the establishment. Cable ended up losing stacks of money, so we ended up with two bankrupt companies merging with each other to create an even bigger bankruptcy. Is that not really why it failed?

Dr Cento Veljanovski: I can give you a very rapid run-through of that. At the time, 135 cable franchises were set out by the Cable Authority. There was no commercial justification for 135. The RBOCs—the regional Bell operating companies in the United States—were prevented from going into cable, and they used the UK as grounds for establishing that they could run cable systems. They thought that the UK market would be the same as the US market, with 50%, 60% or 70% penetration. That never happened, so they all lost a packet of money.

Lord Gordon of Strathblane: That is a fairly elementary mistake to make, is it not?

Dr Cento Veljanovski: It is, but it was a political exercise.

Lord Gordon of Strathblane: By whom?

Dr Cento Veljanovski: By the Americans.

Baroness Kidron: I have a small question about this business. You started off talking about public purpose and then we seemed to get a bit lost in consumer sovereignty. I would like to give you an example. Listening to BBC radio quite recently, I heard a programme about trade, funnily enough, and the importance of trade. I am not saying that to catch you out, but I do not think I would have switched on to listen to a programme about trade.

Mark Oliver: It was not on TV.

Baroness Kidron: No, but it was powerfully essential. I fundamentally agree with the point you made: that if we had all been listening to that we would have ended up in a slightly different place.

Forget about the institution and how it gets delivered. I would love to know what element of public purpose stands separate and sits above the individual consumer as the sovereign state. Is that the bit we seek when we think about PSB? That may be what is in our imaginations, something that is bigger than the desire to engage immediately.

Mark Oliver: One of the essentials for democracy, to be a citizen, is to be informed. That probably sits above it. It is a pure citizens' interest and public interest in everybody being informed. It is not just about me being informed; I have interest in everybody else being informed. It is like being part of a club.

Another one is culture. Cento is right that it is very dangerous to define exactly what a culture is, but people understanding differences and similarities, with some commonality of understanding of what British society is about and what values it has, stands above the consumer interest.

Another one is about the development of taste—a merit good. How do people know what they want before they have done some investigation? Consumers are not born on this planet with a full list of consumer wants. They develop. What they like, appreciate and want is formed by what they consume, and one of the things that forms that is what they see on the media and how it has affected them. Those are three elements that go beyond purely saying, "I am a consumer, I have certain interests and I want to have this". That is how it goes above it.

The trade programme point is that the BBC had not put it on television. Radio 4 is superserving an audience who would probably go out and read a book about trade anyway, if they wanted to. This is about putting it on "Newsnight" more, and on BBC 1 occasionally.

Baroness Kidron: For the record, I do not disagree with you, and I wish that some of the stuff on radio did get on to our TVs.

The Chairman: Indeed, some of the stuff that is way down the website—the detailed coverage.

Dr Cento Veljanovski: I do not necessarily disagree. I find a lot of public service broadcasting in general unanalytical and innumerate, which probably has more to do with the education system than with public service broadcasting. Even if you look at Australian television, which is regarded as pretty poor by British standards, when they give a news broadcast they give you figures and facts, and the people being interviewed debate among themselves at quite a high level.

The second point is that if public service broadcasting is to create a cultural identity and educate people about taste, it seems to be failing at the moment. The under-25s or under-35s are not watching a lot of public service broadcasting; they are on the new media, and there we have a problem, if that is the role. The Mosey article pointed to one of the tensions within the BBC: does it ditch its old audience in favour of a new, younger audience, and how does that start to play out with the BBC's output and role?

Baroness Kidron: But if you do not mind me being very specific, because you have such strong views on this, I am not making it a delivery problem in my question. I am asking whether there is a value in doing the three things that you and Mark have talked about—inform, culture and taste. It was not my list.

Dr Cento Veljanovski: I am not opposed to it.

Mark Oliver: I am with Cento that it may not be done very well at the moment.

Baroness Kidron: I was not making that judgment. I was just seeking to work out whether it was important.

The Chairman: Sadly, we need to move on and get a bit of pace going, I am afraid. This is a very interesting discussion and there is much that we will want to come back to you on after today's session.

Q44 **Baroness Quin:** This follows up to a certain extent what Mark was saying about Channel 4 earlier. What are the views of both of you about the future of commercial public service broadcasting? Is it going to be financially viable in future?

Dr Cento Veljanovski: By that, do you mean ITV?

Baroness Quin: Yes, absolutely, and Channel 4.

Dr Cento Veljanovski: They are different beasts. One is commercially funded but a state entity or trust, whatever you want to call it, and the other one is in there for the profit and has advertiser support.

Baroness Quin: But they both have financial challenges.

Dr Cento Veljanovski: At the moment, they have public service broadcasting obligations, and it might be an open question as to how much of that they are prepared to ditch. Obviously, if they are required to do it, given that their finances can sustain it, they have a future, or public service broadcasting on those channels has a future, particularly Channel 4, because its remit is to complement ITV. As I said before, if you swapped the remits of Channel 4 and BBC 2, you would get a different combination of institutions, and perhaps the pressure on ITV would intensify and it would start clamouring for a relaxation of its public service obligations. One thing leads to another, as conservatives tend to say.

Mark Oliver: With ITV's obligations and benefits—the equation that makes it do what it does—it could say that rather than giving back its licence it could operate as a purely commercial channel, which it can do. What does it deliver? There are three things that it delivers that it might not if it was totally commercial.

One is national news in peak time. The other is local news, and the third is a high level of originated UK content. I would argue that for national news a commercial ITV that was not obligated might move the news to 11 and 5.30. Would that be a bad thing, given that at the moment they seem to be on at the same time?

As regards originated productions, most European free-to-air broadcasters like ITV are moving more of their schedule towards domestic content because of the outlets for US content that are appearing all over the place. The way they make themselves different is by shifting to local content; that is the trend. How high cost and how good that local content is is determined by their business model.

The main obligation on ITV is how many originations it shows, not necessarily how high the quality is, although there is a kind of quality content, so it would probably stick to the same percentage. ITV has had one US import on at peak time in the last 10 years, which did not really work, so it would probably stick to that.

The thing that remains is local news, which of course it has reduced in recent years as its finances got worse during the recession. When they got better, I noticed that it did not go up again. In the long term, it might be better to give that to Channel 4 as a public institution.

Then we go on to Channel 4. What is its future? The problem with Channel 4 is the sustainability of its model. It is a remarkable success story. It is ad-funded and has a very valuable demographic, not just young but quite upmarket, which is unique in world broadcasting as a commercial broadcaster. That allows it to fund quite a full schedule and to cross-subsidise in a way from some of the very popular programmes such as "Gogglebox", although I actually think that has some public service value, towards some of its "Dispatches" programmes and "Channel 4 News". The problem for Channel 4 is that, because it is focused on a young audience, if the web guys are going to make any attack on television it will be the first to suffer, because that is the audience they are after.

My concern about Channel 4, and why I have written in the past about maybe privatising it or having some new form of ownership of it, is that at some point in the next 10 to 15 years it will need capital to reinvent itself if it is to remain a viable public service broadcaster. At the moment, it does not have that structure. Rather than waiting for that crisis to hit us, maybe we should start to engage in that debate earlier.

Unfortunately, whenever you talk about Channel 4 privatisation, it always becomes simple privatisation: sell it off to the Americans or do not. That is not what I would go for. It would be a privatisation with a difference, allowing it to have capital resources, and risk capital, to reinvent itself when eventually the Facebooks and YouTubes come gunning for it.

The restrictions on Facebook and YouTube, which they are about to face, or may face in Europe, on their core businesses—social media and research—will make them more determined to find growth elsewhere. The obvious place to go is into TV, and the younger audience for TV, which is exactly where Channel 4 is sitting.

I worry that Channel 4's future is not as rosy as it thinks it is, and that at some point it will need capital to reinvent itself and a new ownership structure. If it does not do that early, it will be done in a panic, and it might just disappear, or the BBC will be asked to take up its obligations, and we will lose the plurality of our public service system.

Baroness Quin: Arguably, would you say that Channel 4 in some ways got it right? It has a young audience and an old audience. I hate that word "old".

Mark Oliver: Older.

The Chairman: At the moment.

Baroness Quin: It seems to be able to do both rather successfully.

Mark Oliver: Yes, but it has a unique place in the advertising market. Most of the advertisers on Channel 4 are not specialist, young advertisers; they are people looking to reweight ITV's audience, which is still older, female and from lower socioeconomic groups, towards the national population. Usually they are complementary in some ways. You put a campaign on ITV, but you have too few young impacts and too few A/B impacts, so then you put some weight on Channel 4 and you get things back to a national average.

The older audiences are there partly just to build scale, but its uniqueness in the advertising market and it has quite a high CPO and CPT price because it fills that role. It is the only channel that provides young audiences at scale. There are plenty of channels that provide young audiences in very small parcels—the MTVs, et cetera—but at scale Channel 4 is where you go. That is its role in the advertising market.

Q45 **Baroness Benjamin:** We have contestable funding for commercial PSB children's programmes, which will be administered by the BFI. The Secretary of State, Jeremy Wright, has hinted that it could be used as a model for other types of programming.

I have a couple of questions. In your view, should a system of contestable funding be introduced for commercial public service broadcasters? If so, how should it work and how should it be funded? Secondly, should subscription and non-public service commercial broadcasters be encouraged to produce public service content, and how should they do that?

Dr Cento Veljanovski: In a sense, this goes back to the Peacock committee. While I have been highly critical of public service broadcasting, I was responsible for the Gaelic television fund and did work for Commun na Gàidhlig to model a way you could fund Gaelic language programming on Scottish television on a contestable model. That may give some evidence of the pros and cons of that process eventually.

The problem with the contestable market, and contestability in funding a genre of programming, is who decides which programmes are going to be produced. Then you get people bidding, so you get competitive process bidding and reasonably costed programming produced by producers. They must have a delivery system by which they can broadcast their programming.

The danger of that model, of course, is that bureaucrats or whoever is responsible select a lot of programming that people do not particularly want to watch, or broadcasters bid for the programming and then put it on at 2 am at night to satisfy their public service remit. It has pros and cons. That is quite graphically put, but it has pros and cons. If the model is to distribute among the various broadcasters to make them able to bid for programming, you will probably have a co-ordination problem too.

I did not follow up on how the Gaelic television fund operated over the decade it was in practice. That model may lose touch with viewers and produces programmes that are not as attractive as one would have thought initially. Then you get mounting regulations saying that you have to put something on at this time and that you have to do this or that, and it becomes a highly regulated system, if you carry on with it.

At the time, I saw it as a solution to getting the Gaels money for Gaelic language programming, because what was then the Thatcher Government were not going to give money for those types of activities. They got them the money for language programming I think for political reasons, because they got wiped out in Scotland. That goes back to the regionality of British broadcasting, too. It filled a gap. Because of universal service, there is less regional broadcasting than there should have been, given the public service remit, particularly on ITV.

Mark Oliver: On the problems of contestable funding, there is a well-known example in New Zealand that went on for a long time, although I am not sure that it is still going, to put contestably funded programmes on commercial channels and give them slots. You end up having to buy the slot as well as fund the programme. With children's programming that is not the case, because children come to children's programming; it is there and their parents know where to find it. It may be on an app.

As long as the broadcasting schedule has value, which is obviously diminishing over time with on demand, there is something in contestable funding that means that you end up having to pay money to be in the right slot, or control very narrowly which slots it is in. You end up in a very managed situation, where you are almost managing the broadcaster.

As you move to on demand, there may be more scope for contestable funding in the sense that audiences will find particular content, but then you are not getting to a very large audience, so you are not producing much public service, except in niche areas. In niche areas, such as arts or children's programming, maybe yes, not general arts but serving certain kinds of arts, where the audience is coming to it. For a broader public purpose, no, because you end up having to buy the time to put it on in the right place.

Should pay TV broadcasters have it? No, unless they agree to its having a very quick free-to-air window and make it available to the general public free of charge. I do not think that you put public service broadcasting behind a hard pay window; I do not think that those things work, because that is not public service broadcasting.

Q46 Viscount Colville of Culross: I declare an interest as a series producer making TV content for CNN.

I would like to ask about the terms of trade between the PSBs and the independent producers that are their suppliers. This seems quite an interesting market question. At the moment, we know perfectly well what the situation is, in that the BBC particularly takes all the risk, and when suppliers are independent they get the secondary rights and the extra

revenue, as opposed to working for an American company, where they have a work-for-hire model.

Particularly now that BBC Studios seems to be losing an increasing percentage of the production for the BBC, is it not right that the market should be allowed to intervene more and the balance redressed?

Mark Oliver: I have to declare an interest in that I have been an adviser to PACT since 2002.

Dr Cento Veljanovski: I have to declare an interest. He hired me as an adviser.

Viscount Colville of Culross: It seems very relevant to ask you then.

Mark Oliver: We were not the architects of the terms of trade itself. Let me say that first.

On the thing you described, yes, the broadcasters take the risk. It is perfectly possible for the BBC, through BBC Worldwide, to buy the extra rights at the market rate. All the terms of trade do is say that there is a primary licence for use on BBC 1, BBC 2 and Channel 4, for which there is a price. The broadcasters get certain rights to show it over a period of time, and all other rights revert to other windows, which the independent gets more control of, including international rights.

It is perfectly possible for BBC Worldwide to invest in that and pay extra money to secure the international rights, and it does. It is perfectly possible for Channel 4 to invest in international rights and secure those rights, if it wanted to, at market price, and it could. It closed down its international rights division and sold it off; it did not think that it could get the scale any more, because it did not have the rights coming to it by default. It had to bid for them, so it had to have capital.

Again, that brings us back to my argument about Channel 4 and capital. It is perfectly possible for it to get the rights; it just has to pay a market price for them, over and above the primary licence. That is how the terms of trade work.

By the way, the US market is make-for-hire, but it has value-based pricing for successful programmes. If you have a successful programme with a high audience, you can always name your price. What happened with "Bake Off" with Channel 4 happens all over the place in the US market; you make your money through recommissioning a successful programme. You triple the price. It is even better in non-fiction, because there are no actors to pay even more money to; you just triple the price and make huge amounts of money.

The American system must be seen as a whole. It is not just that it gives the rights to the broadcaster; there is also value-based pricing for the producer. That is where you get the profits. There is no value-based pricing yet in the UK.

Should we change the system back again? Why would we? Would it be to give the broadcasters more rights by default? As I said, they are perfectly free to buy the rights in the marketplace. Two of them own their own

production companies—BBC Studios and ITV Studios—for which, because they are the producers, they get the rights anyway. The only company that can complain is Channel 4, because it is not allowed to own a production company, but Channel 4 is still free to buy those rights, as anybody else could. It could invest in programmes. Actually, although it may find it difficult to buy rights over the big indies, because they have international distribution arms and want those rights, it could easily buy the rights from some of the smaller indies, and an extra incentive for it to use smaller indies might be that the rights are available at price.

There is nothing about the terms of trade that blocks broadcasters from owning the rights, but it stops them getting the rights by default for no extra money, which is what they were doing before 2002. It is also what the BBC is trying to do a bit by going to the 12-month iPlayer. PACT has no objection to that; what it has an objection to is that no compensation payment is being mentioned.

The Chairman: Thank you. Doctor, do you have anything to add?

Dr Cento Veljanovski: No, nothing to add to that.

The Chairman: You have been very generous with your time and given us some very interesting evidence and some questions that I think we will pursue with future witnesses. It has been very helpful. There are a number of areas that we would have liked to explore with you a bit further. Rather than detain you any longer, as we said that we would let you go at half-past five, would you mind if we wrote to you to pursue a couple of the outstanding questions?

In the meantime, is there anything that you would like to add by way of general comment or to round off your own contributions?

Dr Cento Veljanovski: No, I think I have said enough.

The Chairman: You have said plenty and it has been very interesting. Mr Oliver?

Mark Oliver: Not me either.

The Chairman: Thank you both very much indeed.