

Supplementary written evidence submitted by Netflix

Supplementary written evidence to the Digital, Culture, Media and Sport Select Committee

October 2020

1. We are pleased to have the opportunity to make this brief supplementary submission, further to our recent oral evidence session as part of the Committee's inquiry into 'the future of public service broadcasting', in response to some of the points raised during that session.

Tax Watch report

2. Netflix provided Tax Watch with a response to their report, and Tax Watch published this response on their website on 3rd February¹. As noted at the time, the report makes a number of inaccurate and misrepresentative statements about the structure and operations of Netflix's business. The calculations which form the basis of the report are based on incorrect estimates of Netflix's UK subscription revenues. The report also uses an oversimplified methodology to extrapolate Netflix's profits in the UK, which fails to take into account a range of operational and country-specific factors. The report contains other factual inaccuracies, including the claim that Netflix has a Caribbean-based entity. This is no longer the case as we significantly simplified our tax structure last year. As a consequence the report's claims and conclusions are misleading.
3. Netflix's corporate structure is similar to many other entertainment companies with operations around the world. Our local subsidiaries in the UK act as services entities which provide marketing and production support to Netflix International BV and Netflix Inc respectively and are remunerated at arm's length in accordance with the OECD Transfer Pricing Guidelines. As our business evolves we keep our corporate structure under regular review.
4. We support and are proactively engaging with the OECD's proposal for companies to pay more tax in the countries where their operations help generate value, and we are committed to working with the OECD Inclusive Framework to develop effective recommendations and set global standards. In the meantime we comply with the rules in every country where we operate, and we will continue to invest extensively in the UK.

Product placement

5. The Committee asked about Netflix's policy on product placement. Netflix is an ad-free service. The creators of shows or films can choose to include brands in their stories if this strengthens the overall storyline or adds to its authenticity. If a brand is featured or seen in content, it does not mean that Netflix, the producer or the creator has been paid. To date we've rarely been paid and we keep paid placement to a minimum. Under the Audio-Visual Services Media Directive, any instances of paid product placement in programmes produced or commissioned

¹ https://www.taxwatchuk.org/netflix_2019_uk_profit/

by Netflix, including on our service in the UK, are disclosed to the viewer by means of clear labelling.

Auto-play

6. Subsequent to our evidence session, the Committee inquired about the role of auto-play in Netflix's taste calculations. Auto-play has limited significance in this context. Each time you access our service, Netflix's recommendations system strives to help you discover a film or series to enjoy, with minimal effort. To do this, we estimate the likelihood that you will watch a particular title in our catalogue based on a number of factors, including your viewing history - however, when considering a member's viewing history we typically focus on whether a member watched a film or series to provide recommendations rather than whether it auto-played following a previous play.