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House of Lords Communications and Digital Committee inquiry into the future of Channel 4

I am submitting evidence in my position as an internationally-recognised independent expert on internet-distributed television, media industry studies and public service media based at the University of Huddersfield, UK. I have collaborated with Ofcom and the BFI and was Special Advisor to the DCMS Select Committee Inquiry into the Future of Public Service Broadcasting (2020-21).

1) What, if any, developments over the last five years give cause to re-evaluate the ownership of Channel 4 Corporation?

1. The primary change to the UK's television market over the past five years has been the increased uptake of on-demand and streaming services, particularly US-owned international SVOD services (Netflix, Amazon and Disney+). In addition, as the delivery of television increasingly moves online, the power of global platforms (Facebook, Amazon, Google, Apple) over the UK's television market has increased. These platforms dominate the basic infrastructures that are required to deliver services online. Put simply, it is not possible to operate online without the infrastructures that these companies control: from Apple and Google's app stores; to Google search; to Amazon Web Services (Amazon's most profitable division, providing data, content and analytics services, including to a large number of on-demand video services); to Facebook's social media services. Apple, Amazon and Google all provide streaming services (Apple TV+, Amazon Prime Video, YouTube/YouTube Premium) and produce software (such as operating systems for television sets) and devices (streaming sticks, tablets etc) used to watch television. The contemporary media landscape is also characterised by the increasingly international focus of the US media conglomerates. This has been apparent in the purchase of UK TV providers and production companies by US media conglomerates (including Channel 5 and Sky), as well as the move of US media conglomerates into direct-to-consumer content delivery in the UK and beyond (e.g. Disney+ and Discovery+). *None of these developments, however, give cause to re-evaluate the ownership of Channel 4 Corporation.*
2. *Channel 4 has been highly effective in retaining audience share despite increased competition from new on-demand providers.* Channel 4's portfolio audience share has remained remarkably resilient, sitting at 10.1% in 2020 (the same level as in 2003), and its linear audience share has remained stable at 5.9% since 2014. Linear remains a core component of television viewing and the evidence suggests that it is not being completely replaced by on-demand viewing.¹

¹ Despite the uptake in SVOD subscriptions, viewing of broadcast content (live TV, recorded playback and BVOD) made up 59% of all viewing in April 2020 (Ofcom 2020 [Media Nations](#)).

3. Commercial broadcasters in the UK have witnessed a 13.5% decline in broadcast ad revenues between 2010 and 2019 (Ofcom 2020: 92). However, Channel 4 has been effective in mitigating the declines in linear advertising revenue. The Corporation's total revenues between 2010 and 2019 increased by 5% (and in 2020 were comparable with 2010 revenues, despite the Covid-19 pandemic).² There is continued growth in the digital advertising market and Channel 4's Future4 strategy has a robust plan to grow digital advertising, such as through data driven targeting. *The evidence suggests that Channel 4's strategy for diversifying its revenue sources is already proving successful in mitigating the effects of declining linear advertising revenues.*
4. *Privatisation of Channel 4 will not address the wider challenges to the TV market that are impacting on the UK's PSBs.* The challenges that are facing the UK's PSBs are structural ones that stem from the development of an unregulated online platform infrastructure. Addressing the dominant market position of the global platforms and the impact that this has on the ability of PSBs to reach and engage with audiences and deliver their public service remits is what is needed to address the sustainability of the UK's public service ecosystem and Channel 4's place within it.³

2) If Channel 4 Corporation were privatised, what would be the benefits? What would be the risks and to what extent could they be mitigated?

5. *The privatisation of Channel 4 is a highly risky enterprise with few perceivable benefits.* The government's consultation on the privatisation of Channel 4 claims that the primary benefits would be to enable Channel 4 to improve its access to capital, take advantage of strategic partnerships, expand into international markets, invest to future-proof its business model and diversify its revenue sources. There is no evidence that Channel 4's financial sustainability depends on improved and sustained access to capital. Indeed, given the risks of privatisation to Channel 4's public service remit (explored below), the evidence suggests that any increased access to capital generated through privatisation would not support Channel 4's continued sustainability as a public service broadcaster. In relation to Channel 4's ability to take advantage of strategic partnerships, expand into international markets, invest to future-proof its business model and diversify its revenue sources, all of these strategies are available to Channel 4 as a publicly-owned corporation. Indeed, Channel 4 has already engaged in such activities, for example, innovating with the world's first on-demand video service (4OD), signing a multi-year content distribution deal with BritBox, and successfully diversifying its revenues to retain its income levels despite a decline in linear viewing. Channel 4's balance sheet is strong and its Future4 strategy well-placed to ensure its future resilience.
6. *Privatising Channel 4 will only exacerbate the problems of concentration in the contemporary media marketplace.* Retaining Channel 4 as a publicly-

² Channel 4 2010 [Annual Report and Accounts](#).

³ Johnson, C. 2020 [Response to Small Screen: Big Debate Consultation on the Future of Public Service Broadcasting](#).

owned broadcaster contributes to the diversity of a media market characterised by increased consolidation and dominance by overseas (primarily US) organisations. The sale of Channel 4 to a foreign (likely US) media organisation would reduce the wider competitiveness of the market and weaken the strength of UK broadcasting. The sale of Channel 4 to a UK commercial media organisation (such as ITV) would lead to problematic consolidation of the broadcast advertising market.⁴ The appropriate response to the increased consolidation in the media landscape is greater regulation of the market to ensure diversity and to prevent anti-competitive practices (such as those identified by the CMA in the online advertising market), not increasing consolidation by selling Channel 4.

7. *Privatising Channel 4 is likely to lead to a reduction in its public service remit and status as publisher-broadcaster.* The UK is a relative outlier in having public service broadcasters funded solely from advertising revenue (ITV, Channel 4 and Channel 5). In most countries PSB is funded publicly or through a combination of public funds and advertising. This is to protect PSB from undue commercial and political interference, recognising that PSB is a merit good whose provision pulls against the commercial demands of the market. In the UK, advertiser-funded ITV was successful in fulfilling its public service remit in the duopoly era (1950s-1980s) because it did not have any competitors for ad-revenue. This enabled ITV to fulfil a public service remit that was almost identical to the BBC's without undermining its ability to generate commercial revenues. However, since the introduction of competition into the broadcast advertising market from the 1980s, with the emergence of cable, satellite and digital channels without public service remits, ITV has struggled to balance its commercial and public service demands. Over the past two decades ITV has successfully campaigned to have its public service obligations reduced, claiming that this was necessary to remain competitive against other commercial channels. Today ITV's public service remit is far less stringent than Channel 4's and significantly reduced from its former remit in the 1980s. Similarly, although Channel 5 has grown its share since its takeover by ViacomCBS, its public service obligations are minimal compared to Channel 4's and it has also sought to reduce those obligations. The lessons from ITV and Channel 5 demonstrate that privatising Channel 4 is likely to lead to a reduction in its public service remit and investment away from risk-taking programmes that serve diverse audiences in the nations and regions.
8. As a public service broadcaster, Channel 4 has unique obligations, particularly in relation to diversity, risk-taking and supporting the UK's independent production sector. Channel 4's public ownership ensures that all of its profits are reinvested in serving that public service remit. *If Channel 4 were to be privatised then its primary obligation would be to generate profits for shareholders, reducing its ability to reinvest all of its profits into programme-making as it currently does.* While it is arguable that there may be more access to debt-financing (and this depends very much on who buys Channel 4) this would only be for high-end programmes destined for the international market. There would be no financial incentive for Channel 4's new owners to incur debt to support the production of the

⁴ The sale of Channel 4 to ITV would give ITV a 70% share of the UK TV advertising market.

kinds of risky programmes that serve the diverse needs of the UK's regions and nations that underpin Channel 4's public service remit.

9. *The UK's creative industries are a success story and the privatisation of Channel 4 would only serve to undermine that success.* Film and television production in the UK has benefitted from public funding, strong regulation and tax incentives that have combined to create a vibrant sector that has attracted inward investment from overseas corporations, such as Netflix. The revenues generated by the film and TV sector are higher in the UK than in any other country apart from the USA relative to GDP per capita.⁵ *Channel 4, as a publisher-broadcaster, plays a crucial role in supporting the economic health of the UK's independent production sector.* The rise of streaming services that require deep catalogues of content has increased the value of intellectual property in the television market. This is likely to make Channel 4 (as a publisher-broadcaster without extensive rights holdings) a less attractive acquisition on the market and lead any new owner to seek a change to the Corporation's publisher-broadcaster status. This would be disastrous for the UK's creative economy, particularly for smaller independent production companies whose ability to retain and exploit rights provides a vital source of secondary income.
10. It is hard to mitigate these risks. While any sale of Channel 4 could be contingent on retaining its public service remit, this could reduce the attractiveness of the Corporation to potential buyers and would not prevent any purchaser from lobbying for a reduction in public service obligations post-purchase. *Once privatised, it will be hard to return Channel 4 to public ownership or resist calls for reductions to its public service remit.*

3) If Channel 4 were to remain in public ownership, what would be the benefits? Insofar as they are valid, how could concerns about its longer-term viability be addressed?

11. *Retaining Channel 4 in public ownership is far more likely to lead to the corporation being able to sustain its current public service remit.* Under Channel 4's current public ownership all profits are returned to production and innovation.
12. Channel 4's publisher-broadcaster status has been crucial to the success of the UK's independent production sector and is a useful corrective to the streaming services that seek to retain rights, helping to ensure the continued financial viability of the UK's independent production sector.
13. Privatisation could threaten the expansion of Channel 4 into the regions and nations which has benefits across the economy: for every direct audiovisual job created by PSBs, 1.7 extra jobs are created in the local economy.⁶ Given the success of the BBC's move to Salford, Channel 4's increased presence outside of London (with the relocation of its headquarters to Leeds and the development of new Creative Hubs in

⁵ Oliver & Ohlbaum 2018 [The contribution of the UK-based film, TV and TV-related industries to the UK economy, and growth prospects to 2025](#).

⁶ UK Coalition for Cultural Diversity (UKCCD) 2020 [Submission to the DCMS Select Committee Inquiry into the Future of Public Service Broadcasting](#).

Glasgow and Bristol), combined with its Emerging Indie Fund and 4Skills programmes, are likely to have a significant impact on the economies in Yorkshire and Glasgow, contributing to the government's levelling up agenda.⁷

14. While privatising Channel 4 is unlikely to address any of the challenges facing the Corporation that stem from the rise of streaming and online provision, *the introduction of platform regulation would go a significant way towards addressing any concerns about Channel 4's longer-term viability*. In particular, greater regulation of the online advertising market to address Google and Facebook's monopoly status (as recommended by the CMA) would help to level the playing field between broadcast and online advertising.⁸ Regulation should also address the terms of trade between public service broadcasters and social media platforms given the dominant infrastructural position they hold in the online ecosystem. For example, because of YouTube's dominant market power, Channel 4 has little choice but to use YouTube to reach audiences, particularly younger viewers. Yet they have little ability to negotiate terms of trade. YouTube significantly benefits from the professionally produced content from PSBs like Channel 4 that is shared on its service, while paying ad rates typically not sufficient to cover the costs of production.⁹ Regulated terms of trade would address these market inequalities, improve the revenue Channel 4 can generate from social media content and encourage innovative new productions that serve the public interests of younger audiences.
15. The platform ecosystem also affects the ability of PSBs, such as Channel 4, to reach and find audiences. It is important to recognise that this is a highly unequal market in which the ability for PSBs to negotiate for prominence is limited.¹⁰ Audience research from the University of Huddersfield suggests that once people make the shift to an on-demand environment, their awareness of and knowledge of new PSB content can be diminished, leading to a reduced engagement with PSB channels and services.¹¹ *Prominence legislation applied to streaming services, devices and smart TVs is now an urgent regulatory priority.*

4) Should the regulation and/or remit of Channel 4 be changed, irrespective of its ownership? What would be the risks and benefits of any such changes to the UK Public Service Broadcasting system?

16. *Given the new characteristics of the contemporary media landscape, there is a clear need for a revised regulatory framework to ensure that the public continues to be able to receive the benefits of public service media.* Ofcom's suggestions for a more flexible, service neutral and outcomes focused approach to PSB regulation is an appropriate response to changing market conditions. Ofcom is right to recognise that the kinds of quotas that

⁷ The BBC's move to MediaCityUK created more than 10,000 jobs in the digital sector in Salford and stimulated the move of other major corporations to the region (KPMG 2021 [An Assessment of the Economic Impact of the BBC](#)).

⁸ CMA 2020 [Online platforms and digital advertising: market study final report](#).

⁹ In 2019 Ofcom noted that 19% of the top 100 YouTube channels are broadcasters, and not the user-generated content most associated with YouTube (Ofcom 2019 [Media Nations: UK](#)).

¹⁰ MTM 2019 [Review of TV user interfaces in the UK market: current offerings and future developments](#).

¹¹ Johnson, C. and Dempsey, L. 2020 [Covid-TV: Routes to Content During Covid-19](#).

are appropriate in a linear environment might not translate to an on-demand context. However, given the hybrid linear/on-demand landscape for PSBs, it is important that the PSBs' remits cover both their linear and on-demand offers. Linear must not be neglected by PSBs given its continued value for significant audience groups.

17. *Retaining Channel 4 within public ownership also provides the government with more leeway to strengthen certain elements of Channel 4's remit.* In particular, the government could set more ambitious targets for production outside of London and the South East, and with SME indies. Given Channel 4's specific remit for diversity, the government could set more ambitious targets for diversity on and off-screen and in leadership role, and for the relocation of senior creative and management roles (e.g. commissioners) to the regions and nations.
18. There is also, potentially, an argument for the relaxation of Channel 4's requirements as a publisher-broadcaster. One unintended consequence of the UK's 'terms of trade' policy and establishment of Channel 4 as a publisher-broadcaster has been the consolidation of the independent production sector, as indies with valuable libraries of IP have become targets for acquisition by larger transnational conglomerates. This has led to increasingly concentrated ownership in the UK production sector. Given this context, there is an argument that Channel 4 could retain the rights to content where it is commissioned from a super-indie. However, this would need to be accompanied by quotas on the corporation's commissions from SMEs, to ensure that Channel 4 continues to support SME indies. This is particularly important given that super-indies account for around 38% of all revenues despite making up only 1% of the industry.¹² Requiring Channel 4 to commission a certain quota of programmes from SME indies (and particularly those in the regions and nations) would support the on-going health and competitiveness of the UK's creative ecology and the government's levelling up agenda. However, given the complexity of the UK's production ecology, a thorough impact analysis should be undertaken before any changes to Channel 4's publisher-broadcaster status in order to avoid unintended consequences.

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¹² Ofcom 2020 [The role of PSBs in the UK TV Production sector](#).