

## **Hartswood Films—written evidence (FCF0006)**

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

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

**Consumer Behaviours:** The expected shift from terrestrial, linear television towards VOD (SVOD and AVOD) is established and accelerating. VOD services are typically owned and provided by US based media & technology multinationals. The pandemic appears to have accelerated and cemented shifts in consumer behaviour, with evidence of dramatic uptake from British consumers of both SVOD and AVOD services over the past 2 years. As expected, this has placed strain on C4's historic ad-funded multi-channel model, notwithstanding the growth of All4.

**Market Conditions:** Internationally based VOD services tend to continue to be loss-making, with major media / tech corporations still in 'investment' stage, as they look to cement their positions in international territories, including the UK. There is a 'race for IP' combined with a major push for scale. This is driving considerable consolidation across all areas of the television industry supply chain. Channel 4 risks 'getting lost' in an increasingly internationalised, competitive and expensive TV market.

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

Benefits:

**Potential access to capital:** As a publicly owned body, we understand that C4 is constitutionally (and culturally) limited as to the amount borrowing it can make. A private owner could potentially invest more into content and services.

**Access to IP:** A new owner would likely have their own IP catalogue, which may become available to C4 in some way. This would likely include programming catalogue and new international programming (i.e. US made programming).

**Access to Expertise:** C4 has very strong UK based leadership / management and a loyal and dedicated UK team, spread across the UK. A new buyer would likely have significant international expertise that could enhance this.

**Economies of Scale:** A new owner would likely have significant pre-existing presence in the UK advertising market, which could enhance margin/value of C4's advertising inventory.

**Risks:** As below and as set out in response to next question:

A reduction of investment in new talent for UK writers, directors and actors. There has been a clear pattern of the large SVODs and Studios focusing investment on existing IP and established talent. A privatised C4 could become just another platform with a similar business model. Michaela Coel current global success started with C4.

Less distinctive British content being made. Some of the greatest creative successes in scripted at C4 have been huge hits domestically, and niche concerns overseas - Kiri, It's A Sin - It can't be assumed that what is good for international (for which we often mean US) is good for British audiences. Commissioners rooted in the UK will have a better sense of UK needs.

Less economic development of regional creative hubs. C4 have achieved a genuine regional base for their commissioners in a short amount of time.

Restrict the ability of the industry to address the inequality of access to UK creative industries, and in doing so prevent the economic development of creative sector.

Plurality of taste. C4 are currently in a position to provide an alternative to the powerful taste makers at BBC and ITV. C4 can provide audience with a different perspective.

Loss of young audiences. C4 a crucial part of keeping young audiences engaged with Television.

- **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?**

**Economic:** We believe that the industrial success story of the UK independent sector is deeply linked to the creation of Channel 4 and its publisher/broadcaster model. It is this that created the climate for young, efficient SME creative enterprise to take root and grow. The economic impact 40 years later is clear. Channel 4 has taken its role of supporting the independent production sector seriously, taking risks where others wouldn't – some of which (by definition) resulted in failure. Many of which however have succeeded, resulting in major economic success and considerable growth for certain production businesses. The fact that some of those businesses have grown to a scale that potentially outstrips C4 itself is not evidence of the need to change C4's model – but rather evidence that C4 (and its intended, founding model) are succeeding. C4 continues to be at the grassroots of the production community – supporting SME's (increasingly regionally based), some of whom will build and grow to become the next generation of considerable production businesses. Part of the rationale for an acquisition will be pursuit of 'synergies' and 'economies of scale'. Even with regulation, C4's focus and agenda will be changed and we believe so too will its appetite for risk. The impact for the next generation of independent production companies, particularly coming out of the pandemic, could be stark given that C4 has historically been the 'entry point' for many young television businesses.

**Cultural:** Like every organisation, C4 has imperfections and inconsistencies. It is however hard to argue as to whether or not it has had positive cultural impact since its foundation 40 years ago. Whilst acquisitions frequently make sense from a 'balance sheet' perspective, recent history (particularly in media & entertainment) is filled with those that have failed on cultural grounds. Channel 4's unique remit, constitution and history have given it a very strong culture and identity, which we believe will be close to impossible to protect in a privatised scenario. Its output also speaks to its unique culture. C4's recent push into Bristol and Leeds holds great promise for a new chapter of programming, much of which will be directly sourced from outside of the South East of England. Again, it is C4's public ownership that has enabled them to prioritise in this way, whilst a basic corporate ROI model may not, no matter how well regulated. The volume and nature of regulation required to protect this would also of course undermine the value of C4. We believe it is inconsistent therefore to argue that privatisation of C4 can deliver for the UK taxpayer whilst also protecting the nature of C4's output via enhanced and more onerous regulation.

- **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?**

Channel 4 is the only full publisher/broadcaster operating in the UK. It is an essential entry point into the industry for many fledgling independent production companies. Some of this may be protectable with regulation, but it feels inevitable that a privatised C4's focus will turn from 'UK indie' in some part – with a new owner leveraging pre-existing production assets and/or catalogue. C4 has been a critical component in 'UK Creative PLC' retaining IP. Much C4 commissioned 'IP' is now owned by international production groups – but again – that suggests that C4's position in the production food chain has worked. The right for C4's production partners to own IP is long established via the Terms of Trade, which have been reviewed on multiple occasions and found by Ofcom repeatedly to be fit for purpose. Those terms have clear boundaries at which major production groups are no longer eligible to qualify for Terms of Trade, whilst smaller independent producers continue to qualify and be protected, thereby allowing them to grow to become the next generation of 'super indies'. The model has been proven to work. It is rightly considered a leading piece of market intervention that has fostered decades of successful creative enterprise, employing 100,000's of people and creating billions of pounds of international cultural export. It is efficient, incentivising and well calibrated. A further review is a distraction, at a critical time of recovery, and should be resisted.

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