Briefing for media sector analysts

12 March 2008

Ed Richards

Chief Executive of Ofcom

Agenda for the morning

Public Service Broadcasting:	Peter Phillips
Competition issues in the TV market:	Stuart McIntosh
Spectrum and Broadcasting:	Philip Rutnam
Radio: A changing environment:	Stewart Purvis
Q&A	

Review of Public Service Broadcasting

Peter Phillips, Partner, Strategy & Market Developments

Current PSB obligations: a reminder

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per week	ITV plc	GMTV	Channel 4	Five	Teletext
Original production	65% total 85% peak	80%	60% total 70% peak	53% total 42% peak	-
News (per week)	7h total 2h 30m peak	1 hour a day incl. regional opt-outs	4h total 4h peak	8h total 2h peak	30 main pages
Current Affairs (per week)	2h 25m total 40m peak	1 hour	4h total 1h 30 peak	2h 30m total 10m peak	-
Schools programming	-	-	6h 20m	-	-
Regional news:	5h 20m total 2h 30m peak	45m	-	-	12 main pages
Regional non-news: (from Jan 09)	English regions: 30m Nations: 3h	-	-	-	40 main pages (analogue service) 24 main pages (digital service)
Regional production	50% of network hours and expenditure	-	30% of hours & expenditure	10% of hours & exp.	-
Independent production	25%	50%	25%	25%	-
Children's	(5h)	(5h 20m)		(25h 50m)	-
Arts	(<1h)	-		(<1h)	-
Religion	(1h)	-		(<1h)	-

Events since the first PSB Review are characterised by both continuity and change

	Continuity	Change
Audience	• Free-to-air TV remains popular • Broadband is mass market, but impact on TV viewing is limited	• PVRs/video on demand enhancing choice • Social networking and peer-to-peer ubiquitous in certain demographics • Importance of citizen-generated content • Home Internet access increased from 10% to >50%
Market	• PSB built successful spin-off channel portfolios • Some PSB genres strong • Terrestrial spectrum still valuable	• Switchover is reality, not possibility • Digital TV growing faster than expected • TV advertising under pressure • Challenges to provision of PSB outside BBC: Nations and regions news and non-news, children's, Channel 4

The level of intervention has already declined since our first PSB review

- The effective level of PSB intervention has already been declining: ITV, C4 and the BBC now spend less on PSB than they did in 2004
- By 2012, the BBC looks likely to account for 90% of the value of PSB intervention under the current system
- The next largest recipient of support will be the indigenous language services and twice as much money would be spent supporting Welsh language programming than intervention on ITV

- The question is whether the benefits of plurality in PSB outweigh the costs

New opportunities and risks for PSB are emerging

Opportunities

- Other platforms and services are enabling new forms of public value
- New providers are contributing to the public purposes
- The growth of interactive media is facilitating innovative content

Risks

- Plurality of PSB provision difficult to sustain within the current system
- Declining reach and impact of BBC and commercial PSBs
- New content that meets the public purposes is having less impact with users

A new approach to PSB is required to adapt to these challenges and use these opportunities

- The existing model of PSB is:
  - based on complex structures of accountability and regulation
  - relatively inflexible and struggling to adapt
  - service-specific
  - reliant on some unsustainable commercial funding models
  - over-reliant on the BBC

Any new approach must deliver against some key principles

- A new PSB system must:
  - deliver high levels of content meeting the public purposes and characteristics
  - be flexible, to respond to uncertain audience and market developments
  - complement market provision
  - embrace a range of platforms and content forms
  - provide sustainable funding models
  - allow competition between a wide range of providers
  - incentivise high levels of reach and impact
  - provide transparent, efficient and effective governance and funding arrangements
- Phase 1 of PSB Review will reflect this and our instincts:
  - towards continued intervention to maintain high levels of original production
  - to maintain plurality at the heart of the system
  - to exploit opportunities presented by new media

PSB Review – Timeline

- Terms of Reference for Second PSB Review: published 11 September 2007 http://www.ofcom.org.uk/tv/psb_review/psb_2review/summary/
- Ed Richards' RTS speech – 11 March 2008
- Phase 1 of PSB Review: to be published April 2008
- Phase 2 of PSB Review: Autumn 2008
- Phase 3 of PSB Review: early 2009

Any questions?

Competition issues in the TV market

Stuart McIntosh, Partner, Competition

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Topics we will cover today

- Pay TV market investigation
- Sky's 'Picnic' proposal
- Contract Rights Renewal review

Pay TV market investigation – status

- The market investigation was launched in March 2007, following a submission from BT / Setanta / Top Up / Virgin
- A further submission was received in July 2007, and a response from Sky in October 2007
- A consultation document was published in December 2007. This set out our initial assessment of the operation of competition in the market, and the outcome for consumers
- We are currently reviewing responses to this consultation – consultation formally closed in February but further responses are expected in early March.
- We will use these responses to determine what further steps, if any, should be taken in the investigation

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Pay TV – market developments

- We noted in our consultation that:
  - Pay TV has grown from almost nothing in the early 1990s to an industry that now provides services to over 11 million consumers
  - At over £4bn, it provides the single largest source of revenue to the broadcast industry
  - There are some warning signs, such as areas where consumer choice may be limited
- A number of developments may influence the future evolution of competition, including:
  - The consolidation and restructuring of the historically fragmented UK cable industry
  - The emergence of new platforms for delivering pay TV services (BT Vision, Top Up TV, Tiscali / Homechoice) based on new distribution technologies
  - Intervention by the EC to change how Premier League live football rights are sold.

Pay TV market – possible concerns

- Our initial assessment led us to identify possible concerns ahead relating to:
  - Whether vertically-integrated firms have the incentive to make their premium content, such as sports and movies, available to other retailers and other platform operators;
  - Whether firms are able to compete effectively at the wholesale level for premium content; and
  - The enforcement of buy-through (the practice of requiring consumers to purchase a basic package before they are allowed to buy a premium service) at the retail level.
- However, **we have not yet reached a conclusion on the existence of any competition problems**. The responses to our December 2007 consultation will help us to examine whether there are competition problems that require further action.
- **We expect to publish a further consultation in Spring 2008.**

Sky's 'Picnic' proposal

- Sky and NGW have submitted applications to replace Sky's free-to-air channels with pay channels on DTT. These pay channels would form part of Sky's new "Picnic" entertainment and communications service
- Formal proposals for the appropriate licence variations were submitted to Ofcom in April 2007
- In June 2007 we announced that we had sufficient information to review the proposals, and we consulted on the proposals in October 2007, noting that:
  - The proposal would have an immediate, positive effect on choice and availability of retail pay TV services on the DTT platform;
  - But that it would also have an impact on competition for pay TV services on DTT and possibly across other digital TV platforms

Sky's 'Picnic' proposal

- We therefore consulted on three broad options:
  - Option 1: consent to the proposal on an unconditional basis
  - Option 2: consent to the proposal subject to imposing additional conditions
  - Option 3: not consent to the proposal
- The consultation closed in December. We received over 400 responses, which we are now considering.
- In reaching our decision, we also expect to take into account relevant evidence or analysis arising from the market investigation.
- **We expect to publish a further document in Spring 2008.**

Contract Rights Renewal review

- The Contract Rights Renewal remedy was established in 2003, when Carlton and Granada merged to form ITV plc
- It addressed concerns amongst advertisers regarding the enhanced market position that ITV would have as a result of the merger
- A review of this remedy was launched on 30 January 2008. The review will be carried out by OFT and Ofcom in partnership, and is expected to take around a year.
- **The current timetable should allow for completion in 2009, in time for the 2010 deal season**

Contract Rights Renewal review

- An issues statement was published on 13 February 2008, to highlight the issues under consideration, and invite submissions / evidence. Potential issues include:
  - Market developments since the 2003 merger
  - Possible changes in market definition
  - Possible changes in the level of competition
  - Barriers to entry / expansion
  - Practical effectiveness of the CRR remedy
- Interested parties had until 29th February to respond and we are currently engaging with stakeholders: **next steps will be determined following this initial round of consultation.**

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Key publications (1)

- Pay TV consultation - December 2007
  http://www.ofcom.org.uk/consult/condocs/market_invest_paytv/
- Sky response - October 2007
  http://www.ofcom.org.uk/media/news/2007/03/sky.pdf
- Further submission from BT / Setanta / Top Up / Virgin - July 2007
  http://www.ofcom.org.uk/media/news/2007/03/submission1.pdf
- News release announcing Pay TV market investigation – 20 March 2007
  http://www.ofcom.org.uk/media/news/2007/03/nr_20070320

Key publications (2)

- Proposed BSkyB DTT services consultation – 4 October 2007
  http://www.ofcom.org.uk/consult/condocs/dtv/summary/
- Contract Rights Renewal Review – January 2008
  http://www.oft.gov.uk/advice_and_resources/resource_base/register-orders-undertakings/reviews/CRR-review

Any questions?

Spectrum and broadcasting

Philip Rutnam

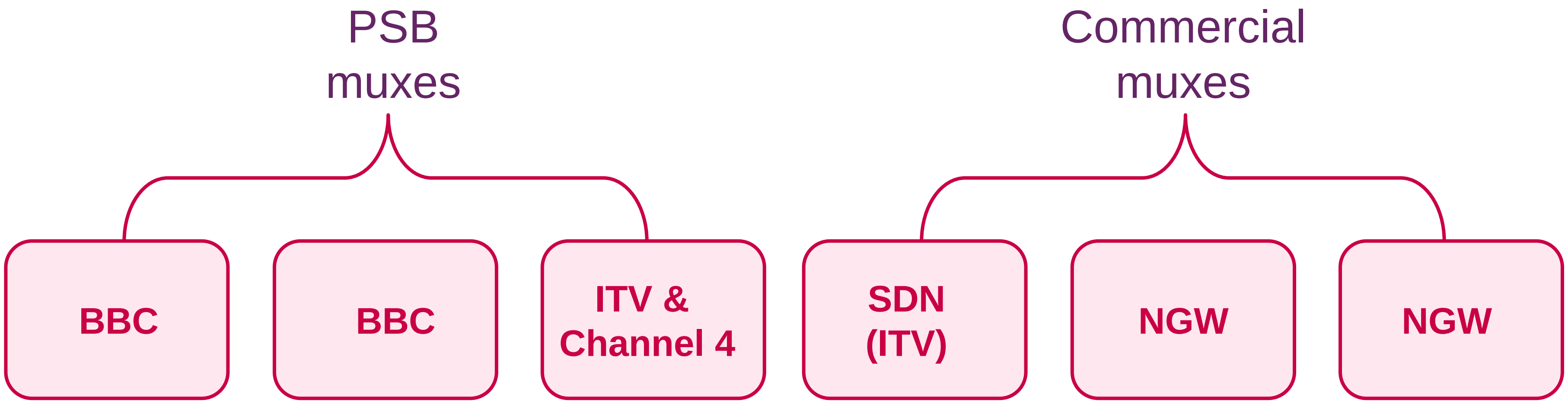
Digital switchover

- Analogue TV uses 368MHz in UHF band (470-862MHz) – just under half of the best spectrum

- 256MHz reserved for digital terrestrial TV in 2003

- 112MHz freed up by DSO (+ 8MHz freed from radar) – “cleared spectrum”

DTT – how it works



Major opportunity for DTT

- Extra capacity from moving to better technical standards - 64QAM and DVB-T2
  - 20% increase from 64QAM, 30%+ from T2
- More services can be carried within given capacity, by adopting MPEG4 in place of MPEG2
  - long-term doubling
- Creates major opportunity to upgrade platform at DSO:
  - launch major new services, like HD
  - without requiring viewers to lose existing services

Three key steps

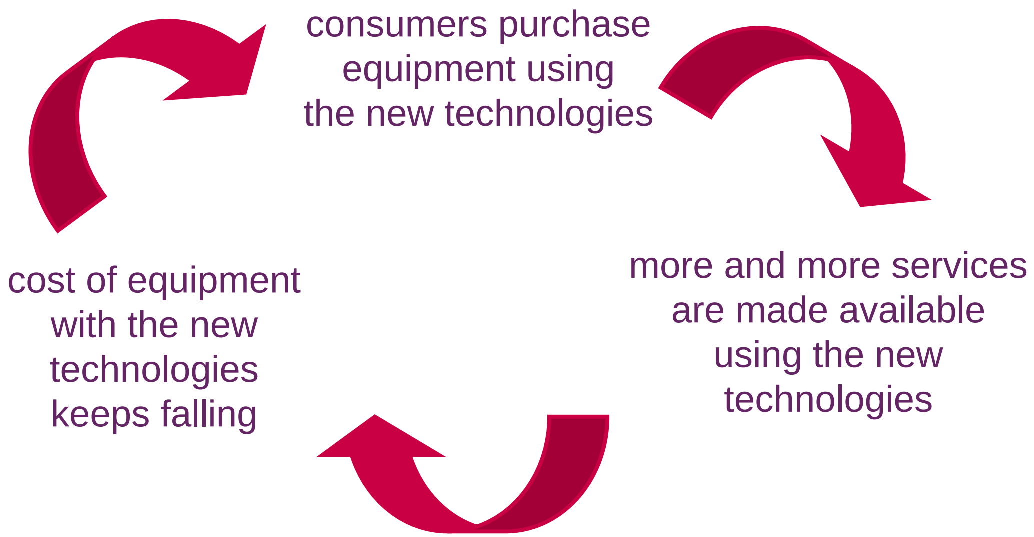
1. Re-organise platform to clear one public service multiplex, to use new technologies (MPEG4, T2)

2. Move services between multiplexes
   - ensuring public service channels are available universally, using MPEG2

3. Conduct open, competitive process between PSBs for access to upgraded capacity
   - beauty contest, as this is capacity reserved for PSB
   - expect interest to be in HD

Major benefits

- From late 2009/early 2010 - as DSO rolls out - wider range of services, and more competitive offering
- Longer-term - accelerate process of using latest technologies
- Benefits estimated at £4-6 billion over 25 years



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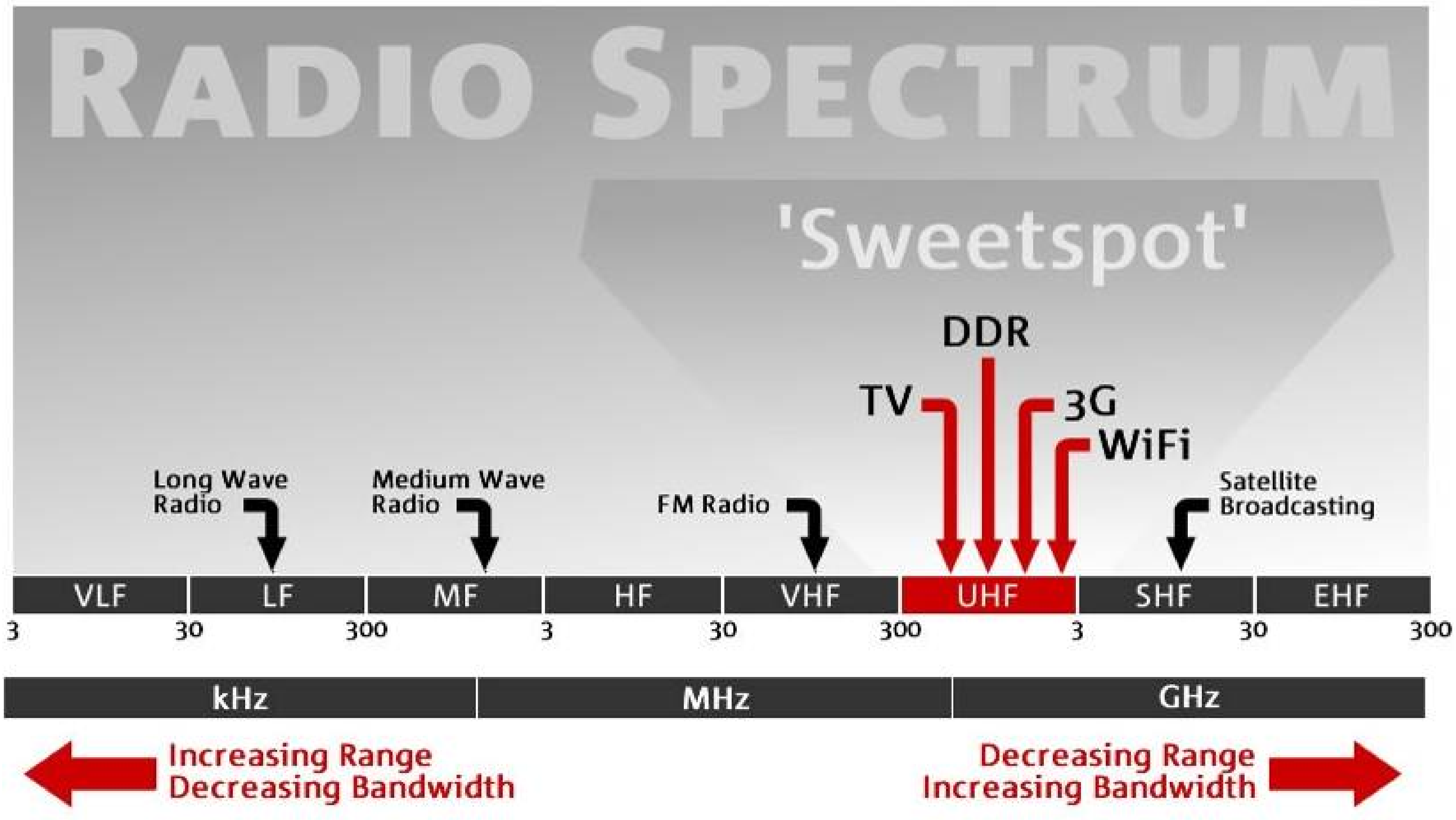
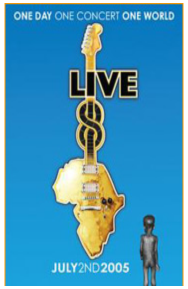
Digital dividend – in the ‘sweetspot’



Many possible uses

- Wireless broadband
- Mobile TV
- More digital terrestrial TV (SD & HD)
- Local TV
- Programme-making and events
- Cognitive radio
- Public safety



Our goal – to release the spectrum a way that maximises total value to society – citizens as well as consumers

Our approach

We considered potential citizen and consumer value across a very wide range of potential uses

- market research in 2006 and 2007; extensive economic & technical analysis; no service that is clearly preferable

Conclusion - we should not intervene to reserve spectrum for particular uses or users

- with one exception (PMSE)

Instead, give users the flexibility to decide how spectrum is used

- allow use to change with demand and technology
- better than regulators picking winners

Particular uses

National digital terrestrial television (SD or HD)

- In addition to the capacity created though the upgrade, spectrum will be packaged in a way suitable but not reserved for TV

Mobile broadband and mobile television

- Spectrum packaged in a way suitable but not reserved for these uses

Local television

- Geographic packages of ‘interleaved’ spectrum suitable but not reserved for this use auctioned in around 25 locations

Cognitive Radio

- New wireless technology. Proposing to allow unlicensed use in ‘interleaved’ spectrum provided it does not cause interference to licensed users

Next Steps

December 2006	Consultation on approach to awarding the digital dividend		
December 2007	Statement on approach to awarding the digital dividend		
	Cleared spectrum, channel 36, interleaved channels 61 and 62	**Geographic interleaved packages**	**Interleaved package with PMSE obligations**
Spring 2008	Consultation on detailed award design	Consultation on detailed award design	Consultation on detailed award design
Summer 2008	Consultation closes	Consultation closes	Consultation closes
Autumn 2008		Information memorandum and draft regulations	Invitations to tender
Late 2008/early 2009	Information memorandum and draft regulations	Awards in Border, Granada, West Country and Wales	Award
Summer 2009	Award	Remaining awards	

- Specific timescales for cognitive access to interleaved spectrum to be determined

Digital switchover

Today

BBC1	BBC2	ITV	Channel 4	Five

2012

Digital terrestrial television

- 40+ standard definition channels
- 4 high definition channels

Digital dividend

possible uses include

- mobile broadband networks
- mobile TV networks
- even more SD and HD TV
- local TV

Cognitive radio

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Key publications

- Digital Dividend Review consultation – 18 December 2006
  http://www.ofcom.org.uk/consult/condocs/ddr/

- Upgrading Digital Terrestrial Television consultation – 21 November 2007
  http://www.ofcom.org.uk/consult/condocs/dttfuture/

- Digital Dividend Review statement – 13 December 2007
  http://www.ofcom.org.uk/consult/condocs/ddr/statement/

Any questions?

Radio: A changing environment

Stewart Purvis, Partner, Content & Standards

Radio: A Changing Environment

- New localness guidance
- Possible changes in ownership
- Digital Radio

New Localness Guidance

New localness guidance now in place

FM stations
- *Min. 10 hrs/day of locally-made programming during weekday daytimes (which must include breakfast)*
- *Min. 4 hrs/day during daytime at weekends*

AM stations
- *Min. 4 hrs/day of locally-made programming,*

No station should be required to produce more locally-made programming or more local material than at present.

- Smaller stations (<250k population) may request co-location and sharing of 6 of the 10 hrs on a sub-regional basis

Benefits for industry

- Balance between financial pressures faced by industry and safeguarding interests of listeners
- Allows some networked programming in weekday daytime (outside breakfast)
- Potential for over 100 smaller stations to co-locate
- Total savings could be between £9.4m and £11.7m

We have also simplified Formats

Old-style Format

Character of Service

A CONTEMPORARY AND CHART MUSIC AND INFORMATION STATION REFLECTING YOUTH CULTURE IN THE WASH AREA.

Detail

Music programming will be predominantly (up to 90%) current chart hits, new releases or hits up to three years old. Up to 50% may be over three years old. Specialist music programmes for the target audience, which complement the main music mix, may be broadcast in non daytime. There will be a one-hour weekly evening live session showcasing local artists.

The station will be music-led, but information, sport and features of particular relevance to the youth and youth culture of the area will be strongly in evidence throughout programming, with bulletins containing local news run at least hourly during peak-time, and whats-ons, shipping reports and community news as regular features. National news will feature at other times. Speech should account for at least 10% of weekday daytime output and 5% of non daytime.

New-style Format

Character of Service

A CONTEMPORARY AND CHART MUSIC AND INFORMATION STATION REFLECTING YOUTH CULTURE IN THE WASH AREA, REGULARLY SHOWCASING LOCAL ARTISTS

Possible changes in ownership

Possible changes in ownership

- Ofcom has no direct role in determining the structure or ownership of the industry
- So we do not “approve” take-overs or mergers
- We oversee the implementation of specific regulation

The relevant regulation

- Ownership rules regarding
  - Number of stations in overlapping areas
  - Number of overlapping multiplexes
  - Cross Media Ownership
- There are change of control reviews to consider likely effect on programme and protect content where necessary

Digital radio

Digital radio distribution in the UK

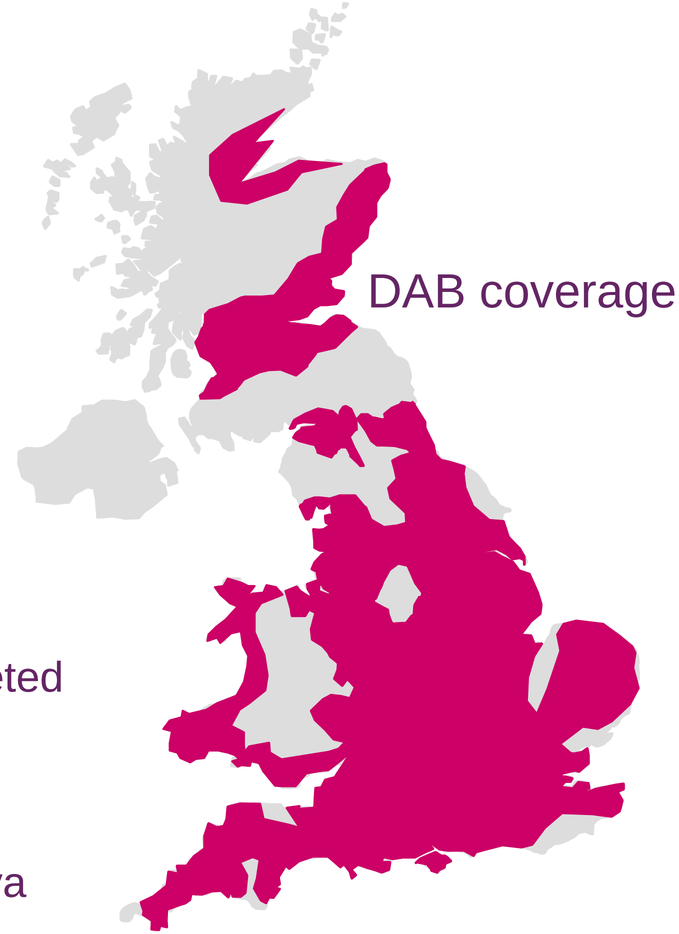
- Digital Terrestrial Television (Freeview)
- Digital Satellite and Digital Cable (Sky, Virgin Media)
- Broadband (Stations on Internet)
- Digital Audio Broadcasting (DAB)

Ofcom's statutory role

- to secure *"the availability throughout the United Kingdom of a wide range of television and radio services which (taken as a whole) are both of high quality and calculated to appeal to a variety of tastes and interests"*
- *"to secure the optimal use for wireless telegraphy of the electro-magnetic spectrum"*
- to secure *"the maintenance of a sufficient plurality of providers of different television and radio services"*

DAB Developments

- DAB currently only platform offering national and local services to both fixed and portable/mobile devices
- Coverage now 90% of the population
  - Digital One national multiplex coverage 90%
  - BBC national multiplex coverage 85%+
- DAB set sales 6.5 million
- 4 Digital Group scheduled to launch second national commercial multiplex later this year
- Licensing of regional and local multiplexes almost completed
- GCap's closure of digital only stations
- GCap's planned sale of Digital One stake to partner Arqiva
- Arqiva's planned merger with NGW



DRWG

DCMS's Digital Radio Working Group is considering:

- Conditions that would need to be achieved before digital platforms could become the predominant means of delivering radio
- Current barriers to the growth of digital radio
- Possible remedies to those barriers

Represented on the DRWG are:

DCMS	Digital One
BERR	4DG (Channel Four consortium)
Ofcom	Community Media Association
BBC	Intellect (set manufacturers)
Radio Centre	SMMT (Society of Motor Manufacturers and Traders)
Arqiva	Consumer Expert Group

Ofcom is playing a major role in the DRWG and with individual stakeholders

Ofcom involvement

“It is a priority for us to work with industry to develop a sustainable regulatory framework for the future of digital radio.

In addition, Ofcom is currently coordinating discussions with the commercial radio industry, Channel 4 and the BBC to explore the options for facilitating the improved viability of the DAB platform.”

Key publications

- Future of Radio Statement: Localness on analogue commercial radio and stereo and mono broadcasting on DAB – published 7 February 2008
  http://www.ofcom.org.uk/consult/condocs/futureradio07/statement/

- Ownership rules
  http://www.ofcom.org.uk/research/media_owners/rulesreview/rules.pdf

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Any questions?