

AN INITIAL RESPONSE BY CHANNEL 4 TELEVISION TO THE INDEPENDENT REVIEW OF RADIO SPECTRUM MANAGEMENT

In this paper Channel 4 wishes to set out its general concerns and some initial observations about the consultation paper from the Independent Review of Radio Spectrum Management. We will submit a further paper in due course.

Introduction

Channel 4 supports the principle that spectrum should be used in as efficient a way as possible in order to maximise the uses to which it can be put. However, we are concerned that the review's ambition to develop an "over-arching principle" for spectrum use - namely "that all spectrum users should face some form of price reflecting the opportunity cost of their spectrum use" (paragraph 24) – risks trying to apply a single regulatory mechanism to a range of different industries which actually have quite different characteristics.

Channel 4 is concerned that the review fails to recognise fully the specific characteristics of terrestrial broadcasters. Spectrum is allocated to broadcasters in order to fulfil clearly defined national needs, especially universal coverage. The ability of broadcasters' to use less spectrum without breaching such requirements is extremely limited.

The review does not demonstrate how the current system of allocating spectrum is inefficient in practice at present, nor how its proposals could make it more efficient.

We are also concerned that the review fails to distinguish adequately between the different structures and funding systems of the BBC, ITV and Channel 4. And while we recognise the review is looking towards a 20 year horizon, we believe it must take account of the political realities of analogue/digital switchover.

Public Service Broadcasting and Digital Switchover

One of the assumptions made by the review is that it is individual public service broadcasters who are users of spectrum. But it is arguable that actually it is individual citizens who as viewers are users of spectrum, and that it is the government that determines which citizens have access to the spectrum carrying public service broadcasting. Indeed, one of the key characteristics of public service broadcasting is that it is a service available to all - and this is one of the factors that distinguishes it from pay-TV ventures such as BSkyB, which is essentially the exploitation of a business opportunity. Therefore we believe that any trade-off between universality, quality of picture, and provision of ancillary services on the one hand and savings on spectrum on the other is more appropriately made at government level than at broadcaster level.

It is government policy that near to universal access to digital terrestrial television has to be attained before there can be any question of analogue switchover. It is not clear from the consultation paper how changes in spectrum management can assist the process without breaching the principle of universality.

The Position of Channel 4

The consultation paper gives inadequate attention to the specific position of Channel 4. Channel 4 is a public service broadcaster established as a statutory corporation by Act of Parliament but funded entirely by advertising and other commercial revenues and with a discrete programme remit. It is allocated spectrum in order to provide the service that Parliament and its principal regulator, the ITC, have set out for it.

However, in the consultation paper Channel 4 is deemed to be analogous to the BBC without any thinking through of how its commercial funding basis and unique constitutional status should be reflected or managed under the terms of the proposals in the review.

In paragraph 53, a distinction is made between commercial broadcasters who pay a franchise fee for their spectrum and the BBC, which is allocated spectrum in order to meet its Charter obligations. No mention is made of Channel 4, which neither pays a fee nor has a Royal Charter. The detailed proposals for how spectrum management proposals might be introduced for the BBC (paragraphs 76 – 79) and for Channels 3 and 5 (paragraph 81) sandwich a single short reference to Channel 4 (paragraph 80), which simply says “Many of these [BBC] mechanisms could also be applied to Channel 4 as the other public sector broadcaster” before going on to make points about universal coverage and price signals that are as relevant to the BBC and ITV as they are to Channel 4.

Channel 4 is a very different organisation from the BBC. It has never been in receipt of public money, nor is it gifted funds in the way the BBC is given the revenues from the licence fee. Channel 4 does not pay for its licence, because it is required to use its funds for the delivery of the Channel 4 services. Any licence payment would diminish those services. Channel 4 has survived and prospered in the commercial market place while fulfilling its public service responsibilities. This straddling of public and private worlds has been at the heart of its success. The suggestion that Channel 4 should be in receipt of a transfer from government funds would seriously undermine its independence and set a worrying precedent.

We are concerned that an idea that may or may not have relevance for the BBC has been adduced to be appropriate to Channel 4 without any explication.

The scope for savings in spectrum efficiency

As we have argued above, the consultation paper fails to demonstrate how the current system of allocating spectrum is inefficient in practice, nor how its proposals could make spectrum use more efficient. It does not seem to have taken into account the limited scope for efficiency gains in the broadcasting sector.

In broadcasting the cost of spectrum compared to the cost of content is relatively small, compared to say one-to-one telephony where the cost of content is nil but the cost of spectrum is huge. So even if it is possible to devise ways for broadcasters to use spectrum more efficiently, it is not clear that the cost savings will be sufficiently large to be a significant driver towards greater spectrum efficiency.

We believe the room for greater spectrum efficiency in broadcasting is extremely limited. If Channel 4 was to economise on its current use of DTT spectrum, it would have to consider dropping interactivity or ancillary services; reducing picture quality; reducing its programme range (replacing sport or drama with less bandwidth hungry programming, such as talk shows); or dropping entire channels, none of which would be in the interests of viewers. Alternatively, if more DTT spectrum became available to the channel, then we would be far more likely to extend or develop services than to trade spectrum. Already we have three FilmFour channels available in satellite and cable homes that cannot be transmitted on DTT because of spectrum shortage.

In seeking to price spectrum used for broadcasting, we are not persuaded that this is best done at a UK level. The signal from a tiny relay transmitter in the Orkneys serving a few hundred homes occupies exactly the same bandwidth as a TV signal being transmitted from Crystal Palace in London serving up to five million homes – should not the price of spectrum in the two situations be very different? The value per MHz of spectrum used by broadcasters will therefore be different at every transmitter, depending on the number of viewers served by each transmitter. Arguably, every transmitter's frequency would need to be separately priced in order that predictable savings can be realised as each analogue transmitter is switched off.

Digital broadcasting and spectrum efficiency

Channel 4 agrees that the best way to make a step change improvement in spectrum efficiency is to move from analogue to digital broadcasting (paragraph 64). It is certainly not efficient to require broadcasting on both digital and analogue frequencies to continue indefinitely.

Channel 4 has lead the way among the commercially-funded terrestrial broadcasters in encouraging digital take-up by establishing itself on all three digital platforms and by developing new digital services. With ITV we have rolled-out the Digital 3 & 4 multiplex; and we have launched popular new services on all three platforms in the form of the FilmFour and E4 channels, which have encouraged digital take-up.

But while there are requirements on public service broadcasters to be universally available there are limits on what broadcasters can do directly to move from analogue to digital. Much depends on the willingness of consumers to acquire digital receiving equipment and on the government's ability to influence this change. So it is hard to see what price signals could encourage Channel 4 to switch from analogue to digital broadcasting.

The suggestion (paragraphs 70-71) that broadcasters may choose to use less terrestrial spectrum by relying on satellite and cable transmission ignores two of the realities of the broadcasting world. Firstly, that government is likely to want a national DTT network irrespective of coverage from other platforms and public service broadcasters will have no choice but to contribute to it. And secondly, that it is in major broadcasters' commercial advantage to be available in all homes and on all platforms: consumers will choose the delivery mechanism that suits them, not have it dictated by broadcasters or government.

Channel 4 is concerned by the suggestion in paragraph 82 that the 12 year period of free use of DTT spectrum may be reduced if analogue switchover occurs before the licence period is over. Channel 4 has invested heavily in digital transmission at the request of government and would be disturbed at suggestions that the terms under which we were granted our licence should be altered.

In looking at options for reallocating spectrum released from analogue broadcasting, it would be sensible to extend the amount of spectrum available to current digital broadcasters. If all capacity is allocated to other users, no scope is left for new innovations.

Other Public Policy Goals

Government makes other requirements of broadcasters, for example to provide ancillary services such as subtitling, signing and audio-description, and to offer comprehensive information on EPGs, all of which enhance viewer choice and viewer experience. These services take up spectrum, and at present are provided as part of the public service requirements of all DTT broadcasters. Pressure on spectrum use could influence broadcasters to provide a more restricted service. It is unclear from the consultation paper how such services would be paid for and their quality regulated.

The suggestion (paragraph 27) that ensuring spectrum efficiency be a primary goal of OFCOM needs to be considered as part of a discussion about what all the primary goals of the regulator should be, so that potential conflicts can be explicit.

Spectrum trading

While spectrum trading is an idea that merits exploration, broadcasters are unlikely to use it extensively. Due to the massive investment made by the general public in their purchases of TV receiving equipment, it is not an option to enter into any secondary market trading unless the vendor of available frequencies happens to have capacity available in the range of frequencies that TV sets can access. Thus it is very unlikely that broadcasters could ever trade spectrum with the military or mobile telephony companies.

The proposal (paragraph 30) to regulate spectrum access rather than apparatus conjures up a scenario where once access to a frequency has been granted the number of transmitters using that frequency may be un-controlled. This could lead to massive interference problems.

Conclusion

The review seems determined to adopt a 'one-theory fits all' approach to spectrum management. Its wish to adopt an 'alternative uses' approach to spectrum pricing means that it is trying to squash a number of quite different spectrum users into one model that is not appropriate to them all.

Channel 4 believes the distinction between 'marketed' and 'non-marketed' services, and the use respectively of market mechanisms and administrative pricing as the means of managing spectrum in these sectors, is of limited use when dealing with industries deemed to be in between the two such as broadcasting.

The consultation paper has not dealt adequately with the question of digital switchover. It treats universal access as a variable factor for public service broadcasters rather than a constant dictated by government.

Channel 4 would welcome the opportunity to discuss its concerns further with Professor Cave and the review team.

*Channel 4 Television
July 2001*