

BBC Charter Review

Licence Fee Seminar

Session 3: Technological Development

Lord Burns: Thank you all very much for being back to promptly. Could I remind people about turning off their phones, blackberries, etc. please, because it does interfere with the sound system, and I would like to just go along the panel and have people introduce themselves very quickly, starting over here with David.

David King: Good afternoon, hi, David King. I'm the Chief Technologist with Logica CMG which is a technology consultancy in the media and technology stakes, and also work independently, and an interest I should declare is that I was Chief Technologist at the BBC until 2001.

Lord Burns: Thanks very much. Not Margaret, we know Margaret.

Ashley Highfield: Ashley Highfield, Director of New Media and Technology at the BBC responsible for our output on the web, interactive TV and emerging platforms, and also responsible for the Technology and R&D portfolio.

Mike Short: Good afternoon, Mike Short, vice-president of Research & Development for O2, also Chairman of the UK Mobile Data Association and responsible for the recent mobile TV trial in Oxford.

Lord Burns: Thanks. John we've had.

Fru Hazlitt: Fru Hazlitt, Chief Exec of Virgin Radio and previously spent six years at Yahoo! which is a very long time.

Jana Bennett: Jana Bennett, Director of Television at the BBC and responsible for delivery to the audience via our TV channels.

Barry Cox: Barry Cox, Chairman of Digital UK and not responsible for anything.

Lord Burns: Thank you very much. I'm going to hand over to Tim to start the afternoon session.

Tim Gardam: Someone at lunchtime, perhaps slightly unkindly, said to me that they had counted the BBC representatives in the morning using the phrase 'as well as' 14 times, which I thought was rather modest really. So if you wish, we will continue to count how often it's used this afternoon, because I think I may well be more of a focus of this session, which will focus in more detail on issues that were raised in the morning, 'cos we now specifically move to the relationship of the licence fee to the future role of the BBC in the era beyond broadcasting, the era of multi-platform digital content and the

BBC's positioning beyond formal broadcasting, and I suppose the focus of the session really is we're asking what should the BBC's role be in a market where real time transmission would be just one of many more options, and where television and the internet become as portable as radio has, where access to archives will transform the breadth of user choice in a way that we've never experienced before, and where new and probably as yet unthought of uses of content will emerge and interaction of the producer and the technology innovator, and indeed where broadcasting itself becomes a far more individual dialogue between consumers and users, and a centre of social networks, and indeed as we prefigure this morning, where the cost of content creation and the value of content created are likely to alter rapidly. And of course this is a world where many new players, completely new players, are coming into the market and as broadcast, telecoms and on-line all converge. Now, the BBC's bid in these areas includes £1.2 billion for digital services, and then £700 million for the necessary digital infrastructure to make switchover take place. That also includes obviously money for the DTT build-out, for DAB and high definition television investment. Then a further £550 million to meet the BBC's own costs for digital switchover. And I think on the basis of the submissions that we've seen on those latter two figures, the 700 million and the 550 million, there will be questions asked from both people on the panel and from the audience about are these justifiable estimates, but my guess is the primary focus of this discussion is likely to be the BBC bid for £1.2 billion for funding its expansion of content across digital platforms, and that of course is in addition to the £1.6 billion for enhancing quality on traditional television which we heard about this morning, and I would suggest this comes down to weighing two opposing issues. The first of course is how can the BBC remain relevant if it's not a manifest presence in the innovative technologies that are going to fundamentally change all cultural reference points for citizens and licence payers. And the second question, of course, is how will the commercial market provide consumers with the fruits that this digital technology can bring, if the BBC is to offer all its content free at the point of use and to potentially subvert an nascent market, and that has been the greatest concern, I think, of the submissions that we've seen. You put it another way, certainly more crudely, which is, which services should the BBC licence payer get just for the cost of the licence fee, and which if any should they pay for through further subscription in order not to distort the market where many commercial public service broadcasters and content providers will be trying to develop those markets, and related to that I think is a point that's also come up today which is a matter really for the Trust, which is how the BBC will define a new service or a significant change to an existing service, which of course is the moment at which the public test and the market impact assessment take place. And the big question that hangs over all this, I suppose, is if it were judged that the BBC should charge for offering such new services, in order to ensure a fair commercial market, would that then follow that there should be a reduction in the size of this licence fee bid? I think our starting point out to be really what is an impartial estimation of what the consumer experience is likely to be like in ten years' time. If we start there, we can then develop and address some of these questions.

Lord Burns: Thank you very much, Tim. David, would you like to ...

David King: OK. Let me just start by painting you a short picture, and possibly if we continue the metaphor of this morning, you partly feel that the industry is striving to find a mobile waterproof device that will actually let you watch television in the Jacuzzi, but that's probably stretching it a little far. Forecasting technology take-up is always a terribly tricky thing to do. Forecasting what technology can do it easier and it's worth just spending 30 seconds on what is likely to be possible in ten years' time, and from that you can start to assess what's likely to happen in the industry. It is a reasonable assumption that at that point it will be affordable to have your own storage device that will hold all of the media you will consume in your life. We tend to think of personal video recorders as being something that will hold a few days' or the week's TV. That pattern you can expect will change in ten years' time. It is a reasonable assumption that although broadband internet is growing steadily at the moment, struggles a little with video right now, there will be no problem in connecting to any content that you want to get to from any content provider in ten years' time, and it's also a reasonable assumption that the power of the computing available to you, whether it's in the network or in a device that you have, will be very substantial. Roughly speaking, it won't have the software but it'll have about the same raw computing capability as one person's ram. What that means is that you're going to be able to find the stuff. Searching is actually quite hard for content. Navigating to content is quite hard. It's reasonable that good picture recognition, voice recognition, being able to tunnel in to find the content will be good, so the world for the consumer in many ways is quite promising. This thought that you can have whatever you want, wherever you want, however you want, is fulfillable in ten years. The question is how will the industry adopt to taking up what parts of that that are possible. Some parts are going to be driven by the consumer electronics industry, and you can see that happening now with high-definition television being pushed both from the content end and also the electronics industry end. Some parts will happen from the content creator and the service provider finding the right way to engage with audiences, who's attention is now going to be split between large-screen televisions giving a tremendously immersive experience for things that at the moment you're seeing with *Planet Earth* but will be more so with high-definition television, and you know, make no mistake, moving to high-definition television is roughly the same as going from black-and-white to colour. People don't quite get it when you explain it to them. They get it when they see it and they don't want to go back, but it will also open up the possibility for content on smaller screens which I suspect Mike will talk about in a while, whether they're mobile over telecoms networks, mobile networks, or mobile over wireless internet hotspots. That ability to have portable content wherever you want will lead to possibly a more snacking type of usage, and incidental use, and some of the research that we've done suggests that will be both substitutional for some types of content but additive particularly for short form entertainment content. And the other thing that we can already see happening that will undoubtedly change is the value chain, changes to have far more content aggregators in play. You will have as a consumer, as well as different devices that you can look at, content formatted for those devices, which is actually a cost for the content providers. You will have a much, much wider array of people that you can get the

content from, and that you're already seeing with Goodle and Yahoo! moving into that space, but there will be many others, and a number of content providers you can already see making the direct move with the internet that lets you disaggregate more of the intermediate chain, and major content owners are now able to go direct to consumers without anybody else in the way. What that means is a range of different business models that come out of that. Two extremes of that will probably persist. One is a micro-charging environment in the commercial world where the equivalent of I-tunes will propagate through to other types of content. It will be easy to buy small quantities of something for small amounts of money incrementally, just like sending a text message at the moment adds a little bit to your phone bill. The other aspect is that, and we spoke about it only this morning, advertising will find a way. It's hard to identify precisely how advertising perhaps will work on a mobile phone, but I've every confidence that it will. The advertising industry is immensely creative at getting its product in front of people who are staring at a piece of glass, whatever size or shape that piece of glass is, so that is pretty certain to succeed. It could go as far as an organisation providing you with a machine that you watch television on say, the equivalent of the Sky+, the Tivo box, the personal video recorder, which is all yours except that it injects adverts at appropriate times according to what you're watching and according to what your community is watching, and the recommendations that go with people like you like things like this. The Amazon approach to life will start to form around the television content that you watch, and that offers a route for the advertising engagement separately from the current broadcast chain and is likely to take place, because it will be easy to do and they're already in the telephony, the mobile sector approaches which do precisely that to mobile handsets, so changing user experience, changing value chains, and one sort of final point I'd make is a change in perception of the value down the chain. Right now it costs television broadcasters around about 5% of their turnover to distribute the content. Telecom's organisations for all the reasons that you know are adopting into that space and saying, 'Well, we could provide television over internet, we could provide television over the mobile.' That industry has a very different perception of whether 5% is a reasonable amount of money for carrying things on its services, and there is right now a mismatch between the telecom sector and the media sector. That is inevitably going to converge over the next few years to some median point, and that will change the way the value chain works as well I think. OK?

Lord Burns: Thanks very much. Barry.

Barry Cox: Yes. I had a terrible example at lunchtime of why old people shouldn't be here. I have a camera phone and I went to see the giant French elephant in Horse Guards and I thought I was taking pictures but I've got pictures of myself. I'm perfectly happy later in the debate to wear my Digital UK hat, but the point I wanted to make now is not a Digital UK point and therefore it's a personal view. I think that the nature of the change is that David has described. You know, we seriously have to question what's the place of public service broadcasting in that environment. I'm not saying it doesn't exist, but I just don't think we can migrate cheerfully in the way we currently do towards it. It's got fascinating implications for the BBC, both in

terms of the funding for the services and the nature of the licence fee, and I would offer a simple, straightforward principle, that the BBC should not offer services or content to the new media activities, certainly those activities where commercial competition exists, without expecting to get fair revenues from it. Advertising, pay video on demand, whatever, doesn't matter, they should charge or get advertising revenues from it. The licence fee should not be used as a basic principle to do that, and it would be wonderful if the Trust could agree with the BBC that that would be the way they would approach it. I don't think it will but I mean, it would be wonderful if it did. Obviously there are things already where, I read fascinating piece in *The Economist* a couple of weeks ago which said that bloggers would not go to links which weren't free, so in that sense some of the BBC website would probably have to stay free as it is, but I don't think the same is true for pod-casting, not material that's made for pod-casting as opposed to existing radio services. I don't think it's true for mobiles, and I certainly don't think it's true for a team service, whatever that is, that's already been talked about. If it's new and requires money, I think the starting point should be fund it commercially, and then let's see. It may well be, after a few years, that we discover there are gaps that a public service intervention would fill, and we can take the appropriate action at that point. It does mean, I think, that the licence fee should be, the new licence fee should simply sustain the existing services. There is an add-on for digital and of course I naturally support that. There is add-on for Manchester, well, that's up to the Trust and the government, if they want to fund that, and the whole quality thing I think, my instinct is that that, and here I'm rather sympathetic to Mark Thompson's argument that the government produced in its White Paper an amazing wish list of achievements which frankly are probably far too expensive. You know, it will cost them £1.6 billion, I'm sure, to get most of the things that they had on that list, but here we come up against the historically, we in Britain have always spent more on television than anybody else and it's a very interesting question as to whether we should continue to do that, in conventional terms. It may well be that the public money should be used for other purposes. I think the difficult mindset here for the BBC and indeed for the Trust will be what Michael Grade said to me this morning is, the mantra of the licence fee payer should not pay twice. With all respect to Michael, I don't think that will hold. Either that means the BBC doesn't do this stuff, or it means it will colonise the virgin territories in the way that it did with the web. And a final point I'd make is just to repeat that I do think in safety's sake we should obviously review this after a period of time, but it is a better starting-point than the one we look like we're going for.

Lord Burns: Mike.

Mike Short: Thanks very much. Coming from the mobile space, I feel as if I'm a little bit I won't say in the lions' den but coming at it from a very personal casting world rather than a broadcasting viewpoint, so let me try and give a slightly different viewpoint there. I think the world of mobile has been significant to innovation both on scale and international reach, and I'd like to draw some lessons from both of those, but also in interests of its impact on personal viewing habits going forward. There's a scale. Ten years ago I was Chairman of the GSM Association worldwide, more countries in it then than

the United Nations, roughly 15 million customers, today 1.8 billion. It's huge. But that's driving the consumer electronics industry today in terms of the economies and scale across handsets and base stations and other electronic products. That was when we went digital. We went digital some ten years ago and we did it without government funding, but the economies of scale were absolutely vital to us being able to do that, to transition from analogue cellular to digital cellular, and in terms of international, one of the things that many of the mobile operators tell me today is that they would like an easier way of dealing with the BBC for mobile and for internet, and I want to see the BBC being a beacon internationally for us all, because we've paid for the BBC and I'm sure we'll continue to pay for the BBC. It's very important that the mobile community understand in other countries what content is available more easily, and that combination of mobile and internet is needed in other countries besides the UK. That could be a new revenue stream that I don't think has been fully taken into account if we look longer term. I do have some concerns about scope, particularly when we think about spectrum and the radio waves without which there wouldn't be TV, radio or mobile. We need to think very carefully about who are the people who can use spectrum and thinking about alternative uses of spectrum. I'm a strong advocate of the best use of spectrum in terms of efficiency, but in terms of its use, we need to take into account perhaps the Treasury direction of a bit more spectrum pricing, perhaps even the prospect of auctions. We've certainly had to pay a lot for our spectrum to date, but if we look at things like mobile television, we need to be fully aware of the cost of spectrum, and also the trade-off that could occur in favour of DAB or DMB and HDTV for example, so spectrum is an input cost where we need to think very carefully about what is the public interest test in the context of broader spectrum use. It's quite clear from our trial in Oxford that there was high demand for mobile television with our 375 trialists, and I'm very pleased that BBC were an active partner in that trial. I'm also very pleased though to see that there are many other trials and indeed implementation right across Europe. We must be very, very careful that the UK doesn't take UKcentric spectrum decisions which affect the ability to deliver services. So a spectrum policy is not just a matter of cost, it's also a matter of economies of scale, it's also a matter of service. Those three points are inextricably linked. In terms of innovation, the BBC has been an innovator for eons, you know, since it's been born, and I'm pleased to see some of the elements about the ongoing plans for innovation, but I think when we look forward a few years, the pace of change I think will be very, very challenging to the BBC. I also think it'll be very challenging to the governors. I think there is a case to say that, you know, it's part of the public interest test that maybe there needs to be external technical advice in this area, because the reality is that the pace of change internationally is probably going to quicken rather than slow. Some of the things that trouble us about offering mobile television or indeed current content on mobile includes access to rights, access to archives, the ability to search on small devices with small screens. After all, we only went in mobile from black-and-white to colour mobile screens four years ago, but some of that capability the BBC is a great facilitator or could be a great facilitator for. It can also be a great facilitator not just to send but to receive, so my final point I think is, we need to find ways of encouraging more of this communication service in this new era of digital

BBC, a communication service that doesn't either damage the market but can foster creativity from the individual rather than the individuals being purely viewers or listeners, where they could be creative artists as much as they can be viewers or listeners. I look forward to contributing to the rest of the debate.

Lord Burns: OK, thank you very much. Ashley, do you want to ...

Ashley Highfield: Maybe I should just address some of those points to Tim. I think it is the BBC's most significant challenge remaining relevant in the digital world, and I think it just goes back to our purposes of informing, educating and entertaining, and actually to the generation that are using mobile phones and play stations as much as television, the device is almost immaterial. They just want to be entertained and educated and informed. I'm not sure that the BBC's services subvert the nascent markets. I'm very much with Mike and David here that the BBC has a role to innovate and can actually path-lead, and a number of the BBC's inventions going back to its role in creating teletext through ceefax, the invention of nicam that came out of the BBC, the roads we made in BBC KK, moving online in the 90's. Even the Philip Graf review concluded that we have probably brought about two million people online for the first time through the online services that we offered, and that was 2½ years ago now. I do absolutely agree though that for significant new services, they should go through the public value test and that's the framework that's being proposed for, what has been called the input until now, now is the I-play, the 7-day download service from the BBC. Navigation is absolutely key in this. I've often thought that content online particularly at BBC KK, a strap-line could be great content well hidden. It's actually very difficult to find your way around and I've an even bigger concern if in the future actually it's left to the very fine American companies like Google and AOL and Yahoo! and MSN to actually aggregate British content and offer it up, and I worry about that, that lack of, or loss of relationship with our audience, and it's a trade-off, I think, that we work very closely with these organisations and we distribute through them and we reach our audiences, given that we have our obligation of universality, but I believe that the impact of our content is also by having good, clear navigation. The role that the government's asked us to take of being a trusted guide to content on the net I think is a very important one for us. I do think that the role of the public service broadcaster in on demand is the lifeblood of the BBC. I think that if, to Barry's point, the licence fee were there to sustain existing services only, that would be the point of terminal decline for the BBC. It would be a bit like Encyclopaedia Britannica saying you can only distribute through, you know, bound 12-volume books on shelves when Microsoft come along with Encarta on a CD rom. We have to move with our audiences and actually the main driver is our audience demands and our audiences increasingly want to consume television programmes on their terms, wherever, whenever, however, on mobile, time-shifted and cut up however they want to watch it, and if we don't respond to that, we'll be in trouble but, and to some press that has suggested we are trying to sort of replicate successful commercial models such as Myspace, absolutely not. I believe that we enter this second age of digital in a spirit of true partnership, and if perhaps I could just cite a couple of examples, are beginning to open up our archive, the creative archive, allowing

people to download out content and then add to it, edit it and submit it back to the BBC. That has been done in collaboration with Channel 4, the British Film Council, Open University, and now other partners have come on board like Teachers' TV, and I think it's that model of the BBC acting as a catalyst for new services, and then acting in partnership with other players that is the model going forward. Finally to Mike's points, I think our role going forward, of basically using new technology is to do what the BBC's always done, inform, educate and entertain, but using all the new forms of distribution, is our primary role, but I do also agree that the role of incubator, if you like, of trying new technologies, breaking down some of the hurdles and then sharing that with the industry, and if I can give just one example of that to finish, the iMP Trial, the media player in the 7-day download window that we've just finished the trialing on, used for the first time in the world for a broadcaster, we used peer-to-peer technology to potentially massively reduce the cost of distribution, while still protecting all the content with digital rights management. Now, we worked in partnership: the DRM came from Microsoft, the peer-to-peer technology came from Kontiki, and so on, and what we've shown was in fact it worked. Now that's great and I'm very pleased that Sky chose to take the exact same solution and launch Sky by broadband off the back of that. I think that's one of our roles. So innovator, yes, and I think the idea of external technical advice as well when we are proposing to launch new services also has a lot of sense, and to spectrum usage just one favour I think in the shifting sands of spectrum is that the BBC actually utilises 58% of the FM spectrum but actually only 22% of the DAB spectrum, so clearly the plurality of the market make the BBC proportionately a much smaller player.

John McVay: Thanks very much. I'm right in the middle of new media negotiations with the four terrestrial broadcasters, so I won't get too much into that. However, I'll start with one thing we had said to every single broadcaster is that if you want to take our rights and exploit them in broadband and online, we absolutely think that should be commercial from day one, so I agree with Barry, that I think the BBC should be looking to monetise this and make it commercial. It's enhanced extra value for the licence fee payer, and our main concern is that if the BBC moves massively into this space which no doubt it will, that this will have an impact on the development of commercial services which will be critical, speaking as a production trade association, which will be critical to be able to fund content going forward for commercial broadcasters and indeed other commercial services. Many of them are not in a position to enjoy a licence fee or programme budgets going anywhere near that, so we do think it should be commercial 'cos that's the way to bring in new revenues. If advertising is migrating on to these platforms, we want to be able to capture some of that, to continue to invest in great British content, and I think there was one thing across this panel here which just reminded me is that the UK currently is probably the world leader in new technology and new media platforms. We have 3G, we have digital satellite, we have digital TT, you know, we have broadband take-up, we have our consumer base which is an early adopter consumer base which seems to be very keen to adopt new technology, new offerings, HDTV, and I think, you know, there is a real opportunity for us broadly across all these industries to really get into this

commercially, to look at ways we can develop new content and new content ideas, whether that's through specific communities like developing the Myspace idea further, and to actually learn from that, and then export our skills into other markets as they mature. I think, you know, it's not often the UK's the leader in these fields, but I think we've got a little window now, both in mobile and everything else, for content creators it's a fantastic opportunity for us to go direct to our audiences, which is something we've never been able to do, we've always been into intermediate, so I think there's a real opportunity I do think, and I agree with Ashley and I think all of these new services by the BBC must be subject to market impact assessment and public value tests. We will probably end up coming to some arrangement with the BBC. We still think even if we do a deal that it should be commercial from day one, and actually I think, depending on the licence fee settlement and where the BBC ends up later on, I think the BBC may change its mind going forward as well.

Tim Gardam: Sorry, could I just, there's a very sort of clear divide emerging. John, you're saying that you agree with Barry, the licence fee should be associated in the public's mind as paying only, if you like, for old technologies.

John McVay: No, not old technology. I think licence fee is paid for content and world-class, and as I said earlier, high-quality content, and the BBC should get a licence fee settlement to continue to do that. I think moving or migrating bits or all of that content into new spaces, into on-demand for convenience should be something that there's an incremental additional payment for, but we say that to all broadcasters, that's our position, that this should be commercial from day one. Some of the other broadcasters accept that. How much the share of that is is another matter, but I think that's the difference.

Tim Gardam: So in other words a licence fee payer, if they wish to catch up on a piece of content in a 7-day window, should have to pay more for that. That will not come as part, in your view, of what a licence fee payer should be paying for through their licence.

John McVay: I think an enhanced mobile usage of the content is something that we should look at, yes, we've said that. The BBC has rejected it, of course, but that's been our position.

Lord Burns: Thank you. Fru.

Fru Hazlitt: Yes. I think there might be just one fundamental issue here that I would want to raise, which is about timing. This is a session on the future of technological development, and I think David painted us a great picture of what might happen, and I imagine that quite a lot of it will, but believe you me, having spent some years in one of these monster technology companies which was of course fabulous, it was also very, very hard to predict what was going to happen, and we spent hours, weeks, months, trying to predict what was going to happen. Most of the time we probably got it wrong, but some of the time spectacularly we got it right, but the point is that in this whole world

of change, seven years is an extremely long time, so some of these things may happen, some of them may not, but I think just to put it in perspective, it might be worth going back seven years. The proposal today is for something that's to be in stone for seven years, and I would say let's just look back to seven years ago, you know, a couple of things, 1999, you know, Google has just started. It's now worth \$118 billion, my God, right. Yahoo! share price was \$249, in a year it was \$9, OK, but, I know, I was there, so seven years is an extraordinarily long time in all of this changing picture that we see, and I think we just have to accept that. You know, in 1999 the first DVD player was brought out. I mean, it doesn't, you know, it feels like an awfully long time ago but it's not, so I just think we need to be sensible, and one of the things that we must pose today, and I don't know if it has already been mentioned, you know, is seven years too long for this thing to be in play, and you know, who knows what will have happened in seven years' time? You know, definitely, definitely, definitely it won't be what we're looking at now, and there are so many issues that we all face in this space, and you know, if you're working in the commercial radio industry at the moment, you know, it's impossible to say what's going to happen to the radio listening habit, which is why we're spending all this time debating with Ofcom how long our licences should be, you know, and this is I think a very, very critical issue, and you know, if we're looking at, you know, what is going to happen to spectrum and what is going to happen to licences, and we're trying to decide whether in fact those should be curtailed, then why on earth are we deciding now that a 7-year period or indeed even a 10-year charter period is the right period of time for the BBC, so I really would want to throw that in. The other thing I just want to throw in, which again I apologise, I'm not sure if this was mentioned, but I spend my life being audited. I mean, I don't spend my life being audited but I work in companies that are audited, and there is, you know, I read this morning the PKF Report with interest, because I have to say, if a report like that was written about a business that I was running, I would have some huge concerns, I really would. You know, I would simply not like to read things like, *'We suggest that the DCMS should explore whether the BBC should consider alternative strategies with lower associated costs or indeed whether the current strategy can be pursued more economically than projected, particularly with regard to digital technologies.'* I wouldn't like to read that. *'The BBC cannot be said to have exhausted all possibilities for catch up by way of the value for money programme, especially taking into account the low level efficiencies in the previous licence fee period. We note the lack of sensitivity analysis.'* In business today, any media owner today, sensitivity analysis, I promise you, are things you have to do every single day, because you do not know what the future holds. None of us know what the future holds. We like to think we do and we hope to God we're getting it right, but we definitely can't be sure of a 7-year set in stone plan, so that's the thing I'd like to raise.

Lord Burns: Thank you very much. Jana, do you want to ...

Jana Bennett: Thank you. I think if you start on the point about time and lack of predictability, I think that the fact that the BBC has, you know, moved to embrace formerly purposes which are enduring purposes, underlies a point

that we don't know, we don't know what shape the delivery of those purposes, and we can't know, as you say, what shape that should take over this period, but what we do value is predictability a) of our existence, and of a form of funding which allows us to both innovate and find the means to deliver against those purposes, but acknowledging as of the last charter period that we didn't predict as many companies, we didn't predict mobiles, probably didn't predict ring tones particularly or messaging, nor did a lot of other people, so we have to accept I think the uncertainty but also the need for creativity and ability and enough space to innovate but against firm purposes and a set of structures where we are going to be judged in a tougher regime with the Trust, regarding whether those purposes are going to be met that way, whether they stack up and give us value for money, whether or not there are better ways of doing things, and so some of the points of PKF I think, those points are being taken by the Trust in the future, I am sure, as both challenges but actually as something that's necessary in terms of testing out what management thinks it should do. However, when it comes to let's say staying, I'm the old linear guy here, you know, woman, you know, trad media doesn't really exist in the minds of consumers even now. The fact that a linear programme will be accessed on more than one platform is already here. They're ahead of these debates in many ways by their own behaviour, and they are through, whether it's illegal downloading or the acceptability to different peer groups of just getting hold of content and enjoying it doesn't mean that we could stand here and just say, 'Deliver across old platforms and see all the rest from the point of view of licence payers as being chargeable.' I think the very principles of universality and the desire to reach audiences with high-quality content needs to be not confined by one set of platforms, 'cos indeed the audience doesn't either. They want to be able to dip in and out and find content that they've already paid for, and I think that's a very, very important principle. I will put in an 'as well' though for Tim's purposes, which is to say, I think commercial value is important as well. I think I disagree and there's a negotiating position here which John's talked about with facts, I think that we accept that there should be commercial value and that we should not restrict the development of commercial value. Beyond a certain point though we need to protect licence fee payers' value as well, so I think the words 'windowing' are important. Where do we put commercial boundaries is subject to a negotiation. At what point do we commercialise content? All these things all broadcasters are concerned about right now, but we must be mindful that consumer behaviour has already changed, and they expect high quality content from the BBC that enshrines these purposes any way they like. The way they want to get it may well be time-constrained in the future or it may be windowed or held back in different ways. We don't want to stop commercial revenues happening, but it'll be a question of time, how do we manage time and access? Indeed, we believe though the role of a broadcaster as well as for producers is to build brands, to create big events, to unite people. We think that those experiences are also the way we create commercial value, and if you break it far apart for example with the day one idea, the value in itself will basically decline.

Tim Gardam: In terms of the licence fee settlement, the £1.2 billion that is here, surely what we're trying to tease out is this, that at the moment there are

certain things the licence fee payer gets for the price of the licence fee: all Freeview channels, BBC online sites, and there are certain things that licence payers have to pay for: DVD's, programmes that you buy in the shops, UKTV channels with BBC content on them. The question I think we ought to be trying to focus on is, with all the other ranges of opportunities for how material will be delivered to people who have paid the television licence, how does one define those cut-off points between what they get for the price of the licence fee and what they're going to have to pay extra for. Barry makes it clear that new services, universally, people should pay more for, because they should be commercial deals and so they won't distort a market where other people with material will be trying to make money which as John says will be vital to fuel future creative content. Well, I wasn't sure, John, your view is whether the BBC should get that 1.2 billion which Barry thinks they shouldn't, to fund the digital services, or whether they should be making that money in commercial deals. Do you think the licence fee should be increased by 1.2 billion for the digital services?

John McVay: Not on the principle that if it was to be commercialised, I don't think it will be so I think ultimately we will get the money, that is the political reality, but the principle is that if you were to look at it commercially, then why would you do that and make the money, if you could generate, as Barry was saying, if you could generate it in other ways. I mean, I think just to carry your point there which my esteemed chairman Alex Graham made to a point, which was, if you do carry some of the BBC's logic, then effectively you should send a free DVD of every single BBC programme to every single licence fee payer. That's the sort of logical conclusion. It's a bit absurd but that's where you really end up. I think you will end up with the BBC being on all platforms and being free. As I said earlier, I think over time that that will change.

Ashley Highfield: It might be worthwhile just saying what the £1.2 billion is for. Broadly the categories are the 78-day on-demand services, the open archive, new services are around news and radio, mainly around the re-aggregation of content, and new navigation and search services, and then some more niche services like the creative archive that I've already mentioned around high levels of user participation. I'm not sure that the argument washes that if you can make money out of it, you should make money out of it, John. That would undermine the whole of the BBC.

John McVay: Does it undermine worldwide?

Ashley Highfield: The methodology of funding for these services is to give our audiences access to the content in the way they are increasingly consuming our content, and I just think it's wrong to try and ring-fence the BBC into distributing through a linear schedule when you have to be in at 8 o'clock to consume it on the exact device that we say you want to consume it. All you're doing then is spending the money on content but not allowing our audiences to get it the way they increasingly want to.

Lord Burns: I don't think anyone's suggesting, that I've heard that they shouldn't get it. I think what people are struggling with, and I struggle with, and I think, you know, there are some quite difficult issues here, is whether you should get it for nothing. I mean, if you go and buy DVD's of old television programmes or CD's of old radio programmes, you pay for them. If you're going to have them distributed through your mobile telephone, you will pay for them, you will be paying the mobile supplier for it, so you're going to be in a position when you take these things through your telephone, whereby the mobile supplier is going to be being paid for the fact that you were watching this thing on your mobile, but the BBC isn't going to be receiving any revenue from the fact that you are watching it through that means, so where you go between being able to record it on your own recording machine at home to where we have got used to the fact that we pay to see DVD's of old programmes, it seems to me, I mean, there must be a legitimate debate in here as to where the point stops, and I find it very difficult to believe that the point stops and says that we are not going to pay for anything other than that which is distributed on DVD's. I mean, that would strike me as being a slightly surprising conclusion to reach on this.

Ashley Highfield: And to us as well, and we're absolutely not saying that. We are saying that there are windows in this world that, as John knows, there's negotiations at the moment that we are trying to work out with the industry, this is a nascent market, what those windows should be. Now, the BBC believes that their 7-day window to enable people to catch up or have a first chance to see programming is the right framework. We are absolutely not saying that thereafter there shouldn't be a commercial window, and we're absolutely not saying that for much of the archive content, that shouldn't be returned to a public service window. This needs to be worked through, and that's one of the purposes of the public value test and the market impact analysis for the I-players, to actually test and work through this. I believe personally that this is a win-win market. I just don't think it's as kind of bi-polar as commercial or free, and I believe the 7-day window for offering content free will drive consumption as we indeed were shown to drive people on to the web in the first place, will drive people and will hammock people into various commercial windows, which offer the same as the current DVD kind of market. I really do believe that the audience will win, we'll win, rights holders will win. We just need to work out exactly how these windows are going to work.

Fru Hazlitt: And Ashley, I think you're completely right, and I think, you know, what you're doing is completely right, and you know, when you work in the internet space particularly, you applaud actually what the BBC does in a lot of ways, sometimes you don't, but you applaud what it does because actually it's a great British brand, you know, in the face of all these American brands that dominate the internet space, and this is a great British brand that stands up on the world stage, and you know, we mustn't underestimate that, but the point is, and I know you agree, Ashley, is that seven years is too long, because as you say, we have no idea how this is going to play out, and actually, you know, the truth is, you know, the fundamental argument here is what should we be, you know, setting as a licence fee for the BBC, and

actually there is no real way of predicting that at the moment, particularly in this space, and in this space, what could happen, you know, if Barry and John are right, you know, what could happen is this could be a serious driver of alternative revenue streams for all commercial operators across these spaces. If it does become so, then the BBC will be a problem, it will be a serious problem, and therefore there will have to be new regulation, so why, why would we sit here today and set this thing for seven years? It's just impossible to know, and you know, great that the BBC paves the way, great that the BBC has so much money that it can try all these things when we can't afford to, because I think that's great, in a lot of ways, because it paves the way and it teaches us and it gives us research that we can't afford to go out and get ourselves, but there has to come a point where we go, 'We've learned now, let's rein 'em in.'

Lord Burns: I mean, wouldn't Barry, if I could speak for Barry, I mean, isn't the reply to that is that if you have once got people used to the fact that they can have this material for nothing, it is actually going to be very difficult to then decide at a later point that all of a sudden we're going to make people pay. I mean, you know, a short trial period, in a way suck people in, is a well-worn commercial strategy, then you start to up the price, but to give people five years of having this material for free and then thinking that you can suddenly turn it into a commercial venture I would have thought we be quite difficult.

John McVay: Yeah, can I come back on Tim's point, I mean, the point about the extra £1.2 billion, well, we are paying extra for it then, aren't we. We are paying for it.

Lord Burns: Oh yes.

John McVay: Well, we're not choosing, you know, I mean, we are paying for it, yes.

Lord Burns: Could we see if there are any points that people want to make from the floor?

Audience Q: The discussion was about the BBC charging for it or giving it as part of the licence. I just want to tease out, not should the BBC charge for it but could it? We're not sure yet how the commercial market's going to introduce on demand, in particular the kind of catch up on demand, and whether that will be advertising financed or pay. If the commercial introduces it as an advertising finance, the possible conclusion is the BBC should also produce it as an advertising finance, so I'd like to know what the panel think about the BBC taking advertising. The second business is the issue about PVR, which from that side of the table sounds like we're recording thousands of hours on it if we're allowed to, rather than just 40. Well, that's for free, so could the BBC actually charge for a 7-day catch-up window if the commercial market starts to do it through advertising, and the PVR is sitting there with a thousand hours' capacity, so you may be talking about should it but there is a question about could it, and if the reality of the commercial market is that the

market either gives it away for advertising or you can do it for free on your PVR, then it's a bit of a mute point. The BBC should charge for it because it can't.

Ashley Highfield: It's both of those living together in the same way that ITV and BBC live together at the moment, ITV taking advertising. If you offered both services for free on a 7-day catch-up, i.e. no subscription involved, but the ITV content had adverts in it and of course you've got the advantage in on-demand that the adverts couldn't be skipped, you can use technology to stop ad skipping, then actually you are effectively preserving the current status quo.

Lord Burns: This 7-day window, does this include downloads which only last for 7 days, or is this just online seven days?

Ashley Highfield: Both, it would work both.

Audience Q: Just to answer, if new forms of access for rights holders do have a value attached to them, and I think many rights holders do believe that, to what extent should the public value test actually override commercial value for new forms of access?

Ashley Highfield: Terrific. That is the question that the public value test asks, exactly that. Does the public value generated outweigh any potential negative market impact, and that's what the Trust will decide using Ofcom to undertake the market impact analysis.

Barry Cox: I think I'm suggesting something more than that which is that it should start from the premise that it will earn revenues, probably advertising will pay, and only an exception regard it as being coming out of the licence fee.

Lord Burns: I've got one or two back here.

Audience Q: Can I just ask, I realise that the BBC seeks to reduce the costs to itself by utilising a peer-to-peer technology to distribute catch-up programming as in the iMP trial, but somebody's paying for it, somebody is supplying the band width that the bits of information are flying around, the ISP's, the Telco's. Already in the States there are rumblings about charging distributors such as Google and Yahoo!, charging them to distribute their stuff via the internet on the grounds that the ISP's are paying for the band width to move it around. If the iMP takes off, and you know, it sounded a jolly good idea me, let's hope it does, and not 5,000 but 10 million people are using it pretty regularly, someone's going to start squeaking if someone doesn't pay. Not, ultimately even I'm going to pay because my ISP is going to start charging me for the download, or you're going to be paying through some means of getting it on there via the licence fee. So it may in the short term appear to reduce costs, but surely going back to Barry's point, this is a fundamentally different market-place. It's not broadcasting where the

marginal cost of every extra viewer is zero. It's different, where the marginal cost of every extra user is real.

Ashley Highfield: You make a very good valid point there, but the thing about peer-to-peer distribution is that the audience who actually effectively, as you say, just doing the distribution on our behalf, they are already paying to their service provider, you know, £15, £20 a month for the broadband connection and obviously they're paying more for bigger band width. The broadband service provider who turns round now and says, 'Oh, that's all very well but if you actually fill up my pipes with content for your £20 subscription, I'm going to start charging you even more,' whether that's the charge to the customer or charge to the distributor, I think we'll suddenly find them churning customers to the service providers like Bulldog who've said that they absolutely wouldn't do that. The second point is that new distribution technologies isn't a zero sum gain because actually some of the new distribution technologies like Multicasting actually just simply cut the cost of distribution. It's a much, much more effective and efficient way of distributing content. We don't send out one video stream to every single punter who wants it, and therefore I think that you've got, again by the BBC investing in these new types of technology, new forms of distribution, a complete net win for the industry.

Audience Q: But the idea that it's free is wrong. It isn't in fact free.

Ashley Highfield: No.

Jana Benett: No.

David King: No, but it is worth saying that you're seeing something right now at the very relatively early stage in the market and prices are shifting very dramatically there on a year-by-year basis, and what is currently expensive to broadcast, to distribute a single TV programme will be diminishingly cheap within the time span that we're talking about, and 'new distribution' will become 'normal distribution'.

Lord Burns: OK. I've got someone here.

Audience Q: Can I just pick up, Christy Swords from ITV and Ashley Highfield's point about distribution costs potentially coming down with digital technology, because certainly if you look for example at a digital switchover, we, ITV, we're paying our way there. There are costs involved but at the end of that process, we will be paying less for our terrestrial transmission costs than we are today, and I think exactly the same should apply to the BBC. Just looking at the papers that have circulated this morning, the BBC seems to be projecting that distribution costs will go up from £300 million today to about £500 million pounds per year at the end, once you've got through switchovers, you haven't got any more switchover costs. I'm just wondering what that 500 million constitutes. What are the big lumpy items in there and how much of that is the per annum cost of the iMP?

Ashley Highfield: Simply the increase costs for building out the distribution network for our obligation to universality. The iMP costs of the 7-day window, should it pass the public value test and be approved by the Trust, would be circa £20-30 million.

Audience Q: Why is that an incremental cost? If you're paying less at the end of that, we're through switchover, you're paying less for your terrestrial transmission, where does £189 million incremental per annum cost come from?

Fru Hazlitt: The non-core item, as it says in the report. No, it does. It says there are some non-core items for example such as investment in HDTV, the range of proposals for new media investment regarding the justification for specific online facilities, so you know, I think that's been queried very specifically, and you know, I do think that that's something we would, you know, those of us who work in the digital commercial business would want a serious answer on, because they have raised some very serious questions about non-core investments.

Lord Burns: Person at the back there.

Audience Q: Sorry, changing the subject, Xavier, a short-wave listener. I've been a short-wave listener since the mid-50's, and can I put in a plea for the retention of steam short-wave overseas broadcasts? You can cobble together a receiver for one of these with half a transistor, it doesn't matter which half, an old ear piece and bits of wire and metal, and I speak with some feeling because I spent some time working in South Africa, living and working in South Africa, where we were heavily dependent on the BBC for meaty and meaningful items of news. Anyway, I was rather sad to learn that an Arabic-speaking TV station replaced several short-wave broadcasting stations. I hope that the recipients get good value. They're not paying for it but I hope they get good value. I slightly mourn the loss of the continental French and Hungarian services. Thank you.

Audience Q: I'd like first of all to say that I was slightly worried about phrases like 'being reined in' or even 'suckered in' talking about the punters or the people who are actually paying for this thing. I pay people who deliver stuff to my house but I don't pay them for what they deliver, and I like Ashley's view that having paid my ISP for a delivery service or a channel, I shouldn't then be paying my ISP for what's on it, so I don't really want my ISP to be adding to his profit line, a stream from a product that he's only carrying, I really don't. Sorry Mike, if that's part of your business. But I need to declare that I'm going to absent myself from the very small 10% representative of people who are outsiders and declare that I'm a teacher. I'm very interested, *very* interested in education and that's the main reason why I'm actually able to be here today. We use a lot of BBC material, of course, in education. It's absolutely fantastic and I think you do a brilliant job, but there is still this dual requirement of you, first of all the enabling or the technology enabling that you do so well with the digital roll-out and all the rest of it would argue that you should be supporting open standards, open access media, and particularly

for Third World countries and places who are really far more impoverished than even some of our schools, that's very important. I understand also that you want to use digital rights management and concept management and to protect the industries that you have to protect, partly sadly because I think unlike 2LO and unlike black-and-white television and unlike colour television, in this particular medium, you weren't actually funded to be there at the leading edge, and to some extent you are establishing a presence on the back of somebody else's work, and I think that makes it more difficult, but I really would make a plea that we should not, in our schools, have to subscribe to some of the devices that are around which are unnecessary technically but which exist in order to, I suppose the kindest way to say it, is to fund some of the developments of other countries and other technologies and so on where there is no need to do so, and I sadly have to report that when teachers come to me and say, 'Well, we downloaded, it was from the BBC, it should have been all right,' I have to agree with them, it should have been all right, but it hasn't always, and there are areas where I do have some misgivings as a licence, I was very sorry to have to say that.

Lord Burns: Michael, I'm sure that you're looking forward enormously to doing these public value tests and market impact tests on this whole range of things. I mean, where is it we start in the presumptions on all of this as to what is in, so to speak, what has always got under the wire and what is that is going to be coming to the wire?

Michael Grade: Nothing's got under the wire. I wrote a letter to the FT earlier in the week to say that the present governors, any propositions that were coming to us, we would work on the basis of the rules of the Trust we have to use going forward, so if anything comes to us, which it hasn't, which under the Trust would require a public value test, we will implement it in the interim while we wait for the Trust to start. Listening to this debate and talking to various people over the last many months about some of the core issues that this panel has teased out about what should the public pay for, what services should we give away free and so on and so on, there are no easy answers. I think it's going to have to be a case-by-case look at each proposition. Taking Barry's point, where there is a chance potentially to create a new business, then you've got to take it out of the public service bit of the BBC and put it into BBC worldwide, because what we can't do is put licence fee payers' money at risk in risk ventures where we could lose money. You know, just because there's a new service available doesn't mean to say it's going to make money. The digital highway is littered with wrecks, some of them in broadcasting, so we have to be very, very careful. I am rapidly forming the view that one of the most urgent items for the new Trust when it is constituted is to do a serious inquiry at length into the issues that we're going to be facing, try to identify the issues, try to begin to formulate some policies and some principles that we will apply. Now, those will be, if the Trust agrees to do that and feels that is necessary to do, then obviously under the way the BBC intends and the way the Trust intends to operate in future, that would be a process where we would consult rights holders. We would consult all the tec players, if you like, all the content creators and so on and we would need to spend I would think 6, 9 months getting to the bottom of

this, trying to reach some policy guidelines, again consult with the industry and eventually come to some positive conclusions that not everybody's going to like but everybody will feel that they can live with and that is fair to the licence fee payers, and you know, in the hour-and-a-half or whatever you are allocating to this session, all you can do quite correctly is to tease out some pretty fundamental and unpredictable ways that the market is going to operate, and the way through it is for the Trust very, very urgently I suspect, because of the speed at which this is all moving, try and formulate some policies that everyone can live with.

Lord Burns: Thank you very much. I didn't allocate an hour-and-a-half to this session. We allocated something a little bit shorter and I'm going to have to bring it to a close. But we interpret from that, and I think it's Ashley who said that the one point I think which is Tim has been pressing is, does the £1.2 billion that is in the bid presuppose the outcome of any of this discussion, and does it presuppose that the outcome will be that these things will be supplied for free and therefore have to be paid for by the licence fee, and if it was the case that the Trust then decided that some of this should be in the commercial sector, does that mean that the amount that has been put in the bid for this would be reduced, or in Michael's terms this morning just wouldn't be spent and would be returned to the licence fee payer. I don't know if you wish to respond to that.

Jana Bennett: I'm going to have a go at that. I think there is an assumption that audiences will want to see content and hear content on new media platforms. There aren't presumptions against commercial value being created however, and there aren't assumptions of limited commercial models within our bid or in Building Public Value. Quite the contrary. I think we're making an assumption that there will be lots of ways which can't be predicted now by which value will be created because of new media, but I think we're putting a bet, because we're seeing it happen around us, on things like, and the concept of the 7-day window's been around for 2 years for example, because we think limiting time is probably the best means by which you preserve commercial value and it's very equivalent to DVD's. They usually happen a period after a programme or a brand has been built. Just as we've helped to create value in UKTV as a joint venture by having windows between the exploitation on behalf of licence payers in the public service arena, we have then managed windows across into UKTV where people who are seeing ads are seeing programmes the BBC has helped create through commissioning them, and seeing them on another set of channels. We've been progressive in terms of releasing value into the market under the new terms of trade, and as John would recognise, has been very anxious not to warehouse but to actually allow content to have other lives and then create value again, and I think we would embrace as principles in the future, because we want a dynamic, creative industry. We think value creation's a good thing for both not just the rights holders in the terms of independent companies but talent and that's important also for Worldwide, so we don't want to restrict commercial value but we do think there is a fundamental principle here, is that licence fee payers have paid for the content. We are in a different world from really showing something once where if it was 20 years ago and all of the things, the fragmentation

hadn't happened and one showing was still at an audience level of 10 or 20 million and there were a lot of people getting value, at that point in time, we'd probably be having a different discussion, but being able to have multiple points of entry to content is an important principle. I don't think our funding though is assuming no commercial value, but it is embracing new technology, and also some of the distribution costs, the fact of building digital Britain, those are costs which are, you know, we're way down the road of having helped convert Britain into a very, very progressive country as well. I think this is a licence fee period where we have to finish that plan, we've been asked to do it in the White Paper and there's a mixture of the distribution costs in there as well, there's an actual build-out.

Lord Burns: OK, thank you very much. Does anyone have anything that they're burning to say, because I want to start the next session as close as possible to 3.30? OK, thank you very much.