# Convergence Think Tank

## 18 March 2008

## Opening Address

**John Willis**

**CEO, Mentorn & Group Creative Director, Tinopolis**

### I. Preamble

Good morning. I am John Willis, the Chief Executive of Mentorn and your chairman of this morning, and one of the independent advisors to the Convergence Think Tank. This morning we have two panels and two keynote speakers of the highest quality. After our first keynote the panellists will speak for five minutes each before we have a discussion between them, and they will be helped by my fellow independent advisors sitting in the front row, Tess Read, Chris Earnshaw and Robin Foster. The overall role of the independent advisor is to do exactly that, advise the Convergence Think Tank and to use our experiences and skills to help guide the thinking, but from an independent perspective. We are, as Robin put it in the first seminar, the critical friends of this project as it tackles the key issues and challenges ahead.

After that panel discussion there will be a chance for questions from the floor, and following the coffee break the second panel will focus on possible regulatory and policy responses in the same overall structure of the session. Unfortunately, Jocelyn Hay from the Viewers and Listeners' Association is ill and will not be able to attend and participate as a panel member in the second session. We wish her well.

The first seminar was very helpful to us all in terms of setting out the agenda for the Convergence Think Tank, and the break out groups and papers, which quite a number of you participated in, have been posted on the website. They are important reminders of the wide range of issues that the process needs to deal with. In today's seminar, and those that follow, we need focus in on the most critical issues. Above all we must be steely-eyed on what we as a nation need to do to harvest the opportunities convergence offers to both the creative economy and for individual consumers. We need to skilfully balance possible solutions that work for our businesses, but also for all our citizens. We have to keep in our mind what should and can be done by the

Government and by regulators, particularly in what changes to the Communications Act or other legislation might, at some time, be needed.

First this morning we will examine the new opportunities and challenges for UK content and service providers in a converged world. The UK is a strong, creative economy based on successful funding models, creative innovation and language, but there are important questions to address in this changing landscape. Are there more opportunities in the converged world both internationally and domestically, and what can we practically do to take advantage of those opportunities, and at the same time minimise any threats? What are the most effective ways of ensuring growth, competition and innovation that can be the engine of success?

Later this morning we will focus on the regulatory and policy implications of how best to ensure that these fresh opportunities in the converged world not only are taken, but benefit both industry and consumers and citizens. In particular, we will look at competition policy and competitive markets. In many ways the key word is innovation, because without that growth will be stifled. So how do we ensure that innovation is encouraged across all sectors in the British converged economy? To help us answer some of those questions, welcome to Peter Bazalgette, who recently ran Endemol and is, without a doubt, one of Britain's most successful creators and sellers of television formats right across the world.

# Expanding the market: what are the new opportunities and challenges for UK content and services providers/producers in a converged world?

## Peter Bazalgette

**Media Consultant**

### I. Preamble

To pick upon the agenda, the first thing I was asked about was what are the opportunities and threats for UK providers and producers. I am going to stick to that agenda quite resolutely. I do not think every opportunity that I am going to talk about necessarily is directly linked to digital convergence. Most of them are, but some of them are thoughts and opportunities, because that is the brief I was given.

### II. Taking Risks

The first thing I wanted to talk about was something that became very clear to me last year, in my last year running Endemol, which was that around the world most distributors and aggregators of entertainment want proven product. They want formats and scripted programmes that already have a track record elsewhere. If you think of the logical end to that, if every aggregated distributor of entertainment in every country in the world only wanted proven products there would be no new products at all, so there would be no proven product except that which had been done in the past.

This makes the US and UK markets very significant, because there is a culture, in both the US and the UK, for the commercial broadcasters, and some public service broadcasters (PSBs) to take risks, to commission new ideas, to do lots of pilots. It does not matter which broadcasters you look at in the UK, for instance, you will find they are constantly pressing in-house production teams and their producers, to come up with new ideas. Not only is that culture a good one, it puts the UK and the US in a very interesting position over the next five years, because the more conservative the owners of channels that have slowly declining shares in the world get, the more opportunities we have if our culture is maintained, of investing in new ideas, pilots, and risk. If we maintain that culture the more dynamic our creative economy is going to be. So there are two points, we need to maintain the culture of taking risks, and we then need to exploit the opportunity of selling those ideas around the world, where everybody else is asking for them but not taking risks of their own.

Several public service broadcasters have less economic risk than commercial operators, and consequently they can take more risk. As an example of that, the way in which BBC drama has outstripped ITV drama. The way over the last five years BCC drama have found a number of ways of creating popular drama, with large audiences, that is genuinely innovative. In some cases they have done it by spending more per hour than ITV could afford to spend, on an hour's drama on Saturday night, or would expect to spend. That is an example of a public service broadcaster taking risks in order to create new ideas and new ways of doing things. I am thinking of things like the refreshed *Dr Who*, and *Life on Mars,* these are slightly clichés, to cite them, but it is worth thinking about them.

## III. Appetite for UK Creativity

The second great opportunity for a producer also concerns the US and the UK, and that is, that at the moment there is raging anglophilia in the US. Up until the mid-1990s I could not get in the door of US broadcasters, they would not even give me the time of day, they would not even give me a meeting. Now they are over in London knocking on everybody's door asking what they have got. Whether you are talking traditional entertainment on a TV channel, whether you are talking online digital ideas or new digital content, there is an amazing appetite in America for British creativity, and because America is the largest media economy in the world by a long way it represents massive opportunity, and at the moment we are not exploiting that enough.

In the next five to ten years there is going to be a market that is going to develop in the trading of scripts, much as we have had in the last 10 years a huge market in the trading of entertainment formats. As those media economies that want proven products continue to want local programming, we are going to start trading in scripts. That has happened over 20 years with the low-level scripts that have been traded, comedy sitcoms and so on, but there is going to be a big market in it. It is a massive opportunity, not just for new ideas and scripts, but we have an archive of scripts – take detective drama for a start - which we need to unearth, open up and exploit around the world, because people want to make local versions of proven hits.

I still think that there is greater demand for English language programming than we have bothered to exploit. Independent producers who have been given more control over their rights have done a great amount of work over the last three years exploiting the catalogue, far more than the warehouse shows sitting in broadcaster's archive. However, we are still under-exploiting English language factual and scripted programming that have a market on TV, cable and satellite channels around the world.

## IV. Long-Form / Short-Form

Now I come to short-form video. Here I should declare an interest, since I have recently taken a small investment in a company that is building a technical platform to enable the distribution and digital rights management of video clips. In 2007 there were 37 billion pieces of video delivered online around the world. This year I expect that number to be more like 45 to 50 billion. The appetite that people have for long-form, but particularly short-form clips of video, the business model that is building up around them, which we may hear more on from David who is doing so much with his company to develop advertising online, and the fact that people want free content, is a massive opportunity. It is something that I found at Endemol we were unable to exploit because we had not built a technical platform that was able to deal with the long tail.

Here you are talking about lots and lots of clips, earning a few pennies in each case, but when you add up the aggregate of all that business. You cannot do that with a traditional method of salesmen in an office trying to flog shows. It is not possible to do it that way. So we need new technical solutions and, as I say, I declare an interest, because believing so strongly in that market, I have invested in one of the groups of people who are setting up a business to both distribute and do the digital rights management of it.

## V. Old and New Media

One of the great things that we need to do going forward is to understand that enormous amounts of value are going to be created between the old and the new. You often hear people talk about winners and losers, old terrestrial channels are losers, they are boring, they are in decline, and all these exciting new digital businesses – the fact is most of the digital businesses that you hear about and read about do not have proper business models yet, they do not have strong revenues, and half of them are not profitable, although they may have new capital value. In that sense, not an awful lot has changed in the last ten years.

The old fashioned businesses have got this strange business model. I often say to people, I just discovered this company, it has got compelling entertainment, it manages to get communities and millions around the entertainment, and then it manages to monetise it. They say, what is it, can I invest in it? I say, yes, it is ITV.

The combination of the old and new is where we are going to create a lot of value in the future, and the particular opportunity is to create recognisable branded entertainment on the traditional channels where there are millions of people watching, and then you exploit the hell out of those properties across the digital universe.

It is those two things together that are going to create a lot of value in the future. I only have to cite the example of an Endemol show that I had a lot to do with organising properly, *Deal Or No Deal,* which I know you are all very grateful for because it brought Noel Edmunds back to your screens in the UK. So on cultural grounds alone it is a big plus. I developed a digital strategy for *Deal Or No Deal* where there are now 26 gaming and gambling applications, but it would not work unless Channel 4 had made the show a hit in the afternoons first. Now, if you go to the Ladbrokes site, you can place bets on a gambling game, which turns over millions every week, based on the *Deal Or No Deal* brand. Think of the combination of old and new media there, and the extra value that is being created. It cannot always be done on its own, it is the power of both together, and requires a great deal more thought from all of us, rather than listening to all the shallow commentaries about winners, loses and the rest.

## VI. Next Generation Online Talent

One of the extraordinary things about teenagers today is that they have the technology to create video, they know how to do it, they have the desire to do it, and they have the means to distribute it and post it. That is a statement of the obvious. What it means is that the next generation of talent, the people who are going to come through and write the next great scripted shows, create the next great entertainment shows, are all there - they are advertising themselves now and we can go and find them. Far from regarding Yahoo as a competitor of the traditional entertainment business, it is the feeder of it. This clip is a deal Endemol did with Comcast, one of the digital platforms in America, where we said we were going to take amateur comedy and drama clips, see which was the most viewed in the YouTube manner, and the one that is the most viewed we will take to LA and we will turn it into professional content, and we will remake it. That is new talent feeding through the digital means into traditional media, and getting investment.

*[Video clip]*

We do not have time, but I could show you more clips of entertainment content from the next generation of talent, already advertising their wares on all the platforms. It is a huge opportunity for us to encourage that and harvest that talent, help that talent, invest in that talent, and find investment for that talent to create the entertainment for the future. It is a serious point, and I do not think that it is a point that many people are concentrating on.

## VII. Threats

The content funding model is fraying at the edges, that is a threat, and we need to think very carefully about what the future content funding models will be. You should not imagine while it is fraying it is disappearing. The pace of deregulation is very sluggish. Personally, I think it is depressing that product placement is only going to be legal by the

summer of 2009. I know the reasons for it, but that sort of sluggish deregulation is holding up new funding models for the future, and holding up the creative economy. So I am sad about that.

Over protection holds back new business models. There are some very fundamental questions that producers have got to ask themselves, and independent producers are one of the people that have to ask themselves some tough questions. They have very good terms of trade, they have fought very hard for them, I was part of that campaign, but it is the question of always keeping hold of nurse for fear of finding something worse. The current favourable regime for independent producers will not last forever, and we have to imagine what the future content funding models will be, and what the future regulation will be, if any, for content funding. One thing we can say for certain is the status quo will not persist, and those that want to make it persist for as long as they possibly can without even discussing, debating or imagining the future models, will hold back the future economy.

## VIII. Ensuring Growth, Competition and Innovation

To ensure growth, competition and innovation, above all, deliver super-fast broadband. I have been to lots of broadcast and content conferences this year, and all I have heard people discuss is public service broadcasting and contested funding. It is incredibly depressing – it is just naval gazing. There is only one issue that matters, and that is developing super-fast broadband. Elsewhere I have described it as the passengers in the first class lounge of the Titanic arguing over the bar bill. That is what the public service debate is about.

What we should be doing is talking about how we develop super-fast broadband so that we have a first world economy not a third world economy in five to 10 years time. That issue is massively more important, but if you listen to the people in the content industry you would not know it. We need a change of mindset on intellectual property and digital rights management. In the end the music industry is doing everything they can to stop people who want to enjoy their content, enjoying it. That is where the music industry has ended up. If the music industry had put iTunes up before Napster they would be in a much better position, but they did not do it, and they could have imagined the future quite easily, none of it was rocket science.

So we have to think about the ways in which people want to engage with content in the future and, in a sense, the future is a post-DRM world, it is where we want people to rip our content off, to the extent that we want that content passed on and passed on, collecting more and more eyeballs as it goes, and as long as there are methods for reporting back on the eyeballs that we have attracted and sharing the commercial revenues around that content. That requires a very different state of mind to the one I heard the other day when the Government said they were going to get ISPs, and put them in jail if they do not control IP. That is not the right way to look at it.

## IX. New Advertising Models

We need to encourage new advertising models. Possibly, arguably there is a golden age of advertising coming, because advertising in the future is probably going to have two things relating to it that it does not on television. One, it is going to be by consent, you are taken out because you choose to be taken out, because you know it is the price of getting a bit of free content. So you are looking at the advertising because you know you have sold your attention in return, in a transaction. So it is advertising by consent. Secondly, it is going to be targeted much more to what your interests are.

Those two things could potentially make advertising in the future far more dynamic than it is now, and underline where the future revenue flows for content could be. We need to study South Korea, maybe there are things they are doing that we should not be doing, but I do not know enough about it, and if I do not I guess some other people probably do not either.

Finally, do not panic: read Riepl's Law, which I like to mention on all occasions. Riepl was an obscure German economist who in 1913 said about the media, 'innovations in the media tend to add to what went before rather than replace it'. In other words Repal put forward the idea in 1913 that when there are innovations in the media it tends to be a case of the car and the railway, not the car and the horse. That again reminds you that the old media is not disappearing, it has a pretty interesting model, you add it to the new media and the combination of the two is going to create a lot of economic value.

## X. Conclusion

Implications for regulatory policy, I have got four. Stop obsessing about PSB, I have made that point, deregulate advertising more quickly. Examine privacy issues; if you are going to get targeted advertising it means you need to know more about the customer, but to know more about the customer you need to have a balance between that and the privacy issues online, and those need to be explored very carefully to unlock those revenue models. Finally, I will say it again, the real issue is enable super-fast broadband.

**John Willis**

Peter, if you started to sweep away regulation where would you begin?

**Peter Bazalgette**

I have a long list, but I would mention two things, which I have already mentioned this morning. The pace of deregulating advertising, which is a key source for creating content and for delivering content free, which appears to be what people have the appetite for, needs to be deregulated. I mentioned product placement, and there are other examples. I know the reasons for it, but it is ridiculous that ITV are told how many minutes per hour they can run advertising. Let the public decide, if ITV runs too much advertising they will stop watching. Second is the one I touched on, we need to start imagining the future of content funding, beyond terms of trade, beyond the narrow domestic arrangements between the old terrestrial broadcasters and independent producers. We need to start

thinking about what those new funding models are. For instance, if it turns out that producers need to understand risk investment in content, as they do in the US very well, we do not have those skills at the moment. It is only by imagining the deregulation of that area that you start to find the skills you need to develop to work in that way.

**John Willis**

Your solution is super-fast broadband, which is very attractive, but if all our energy and resources are spent on that will we not be in a situation where we have got this fantastic technology, but actually the content starts to take second place? We do not have the content to engage our citizens with what is on the super-fast broadband.

**Peter Bazalgette**

That is a very fair point, I completely agree with you. The point I am really making is that the massive appetite for delivery of video online, at the moment the system creaks. My understanding is that at Christmas when the iPlayer really got going delivering the Christmas Day edition of *Dr Who*, in various areas the system was creaking a bit. We have not got the capacity we need. That is a separate point to whether you want public investment in the BBC content, but it is a major point.

# Dawn Airey

## Director of Global Content

**ITV**

### I. Preamble

There are not many industries in which the UK is a world leader, but we all know that television production is one of them. There are very good reasons to believe that the opportunities to grow this sector are going to get much bigger, we are the makers of the best content and the developers of the best formats. Obviously there are reasons why this makes sense, and Baz touched on some of them.

First is the distribution and technology platforms, which are the result of the convergence between established technologies, and their increasing competition in the television markets worldwide. That, of course, in turn is leading to an increase in the amount of content, particularly in markets which have historically been less competitive than the UK.

The second, which Baz has very eloquently outlined, is the value of the food chain for content, electronic games for *Deal or No Deal* is a perfect example. Then finally there is the rapid economic expansion in parts of the world. Combine that with convergence and it has created a huge demand for television content, which often local production bases cannot meet.

## II. Worldwide Distribution

In fact, the opportunities ITV would associate, I have a personal KPI of doubling worldwide distribution and production revenues. So we have got to believe there is a market out there otherwise I and my people will be fired. The real challenge for us is to make sure that we can create the content, which succeeds both in the UK market and in other markets around the world, where we can profitably exploit reversion, and reinvent for local markets.

## III. Competitive Advantage

For the UK to be able to sustain that success we need to be clear about the UK's competitive advantage in television, and there are three key elements. One is the raging anglophilia that is out there, and the English language. The second is the fact that the UK sustains one of the highest absolute and per head spend on original television production in the world. Finally, that competition in the UK is based on quality, and that provides an environment in which ideas and programmes can be tested with a certain audience.

Of course, there are issues that arise from that, and the question for the UK is whether we can sustain that current high level of investment in original television production, and hence that competitive quality. If we cannot, then our prospects in the global television market will weaken, and we will find that our home market is much more vulnerable to important content. That leads you rather neatly into the health of our public service broadcasters. Without any doubt they are the economic engines of the UK success in television worldwide, whether making their own content or paying for independents to make it.

## IV. Public Service Broadcasters

The figures are stark, the PSBs in this country are responsible for 82% of all the originated network production in the UK. By contrast, the multi-channel world is mainly based on acquired programmes, and similarly online content providers are not investing in UK production. There is really no sign in either of those cases that that position is going to change. These new entrants on television and online are competing with commercial PSBs for revenue that has historically been invested in original UK content.

If I take ITV's case, since 2000 we have seen £1 billion in advertising revenue lost. That is not a whinge, part of it is our own fault, but it is a fact and we need to rise to that competitive challenge. We also have to recognise that for the commercial PSBs the model that has supported our investment in original production is fading, and it is fading fast. The economics of current levels of investment in original production are premised on far higher revenues, and they simply will not continue to make sense based on terrestrial transmission on a main broadcaster, and possibly on a digital channel, and content available potentially [through] broadband.

### V. Investment in UK Production

So in our turnaround plan at ITV we have set out a new business model, which will underlie ongoing investment in high-quality UK original production. We are aiming to expand our content production and distribution of that business. It is not too late to secure the huge prize of ITV1, as a long-term investor of scale in the best UK television content, provided you give it to everyone for free and driving that UK competitive challenge in the worldwide content market. The next few years of transition are going to be really tough. We do not want a handout to get where we need to be, we want to be frankly left to get on and do what we do. So just as we are going to have to radically rehash our business model for the aim of convergence, so the regulatory regime is going to have to be radically rehashed in parallel.

What does that mean? It means questioning every received wisdom about what realistically it is expected PSBs deliver in the short, medium and long-term. It requires regulators to be alert to how radically new entry competitors are transforming traditional markets, like television. It requires us to think about who produces PSB content, what they produce, and how audiences will find it in the future, and we have got to be radical.

### VI. Conclusion

If we think that PSB has a major role on line, the debate about 'must carry' on TV platforms should possibly be transformed into a debate about must list or appropriate online prominence for PSB content. Why should PSB content not come up first in a Google search if, as a society, we believe that it delivers significant public value? I could go on with other examples, but the biggest mistake we can make is to try and keep the current creaking system going beyond its natural lifespan. If we are timid then we will lose all those things that UK audiences value most highly, and on which the UK's future economic success will depend.

## Emma Ascroft

### Head of Public and Social Policy

**Yahoo**

### I. Preamble

We look at the UK market, we see a market that is well placed to benefit from the development from new media business models. For most media investors in Europe the UK continues to be a very important market, if not the most important market in Europe – it is a big market. We also see vibrant and strong creative industries, we see strong inward investment from outside the UK, and we see strong equitable markets. London continues to be a hub for many of those creative industries. This creates huge

opportunities and I will outline four main opportunities that we see, there are more but these are the key ones.

## II. UK Consumers

UK consumers are a big opportunity. They embrace new media, they are risk takers, they are very critical and discerning users of these services, and that creates big opportunities for people investing in this market. The UK also has a vibrant advertising market, which Peter touched on, 40% of Europe's online advertising spend is spent in the UK, and this offers a ready source of revenue for new online business models, and it is one reason why the UK continues to be the entry market of choice for a lot of investors in Europe. We have a scalable and flexible regulatory model for advertising, which helps support these dynamic business models.

## III. Partnerships

A further opportunity we see are opportunities for partnerships between players in the value chain. The value chain, as we look forward to new medial models, is very complex and it is very long, we cannot all be good at everything, we cannot replicate the big investments that have been made in technology. So the future has to be a partnership, and there is huge potential for UK providers to emulate partnerships that have been successful across the world. We at Yahoo have had successful partnerships with Vodafone, Bebo, BT, Eurosport and, on a smaller scale, the PSBs like BBC and Channel 4. We have all leveraged each other's strengths, and we have used that combined strength to bring new and exciting online services to consumers.

## IV. Openness

The final opportunity is about the trend towards openness, to use more open platforms. This allows new and innovative businesses to develop services for users and distribute them on existing platforms. We partnered with relatively small businesses with developed services for our own platform, and likewise we have worked with other platforms, like mobile companies, to distribute our own services. The future is very much about openness, it is about bringing services and content to users wherever they are in the way they want, and this creates very exciting business opportunities for everybody.

## V. Transition

There are many more challenges than I am going to outline here, but I will outline four. The first one I see is the state of constant transition. Both old and new media are in a state of transition, and this is not likely to be a one off event. Constant change is likely to be a characteristic of media markets going forward, and all businesses have to adapt, nobody can be certain of a secure future - and we know that more than most people at the moment. This, and the emergence of disruptive business models can undermine confidence in some markets, and we are seeing this reflected in the policy debate. We need to acknowledge that and discuss it as we are going through the issues in the Convergence Think Tank.

## VI. User Expectations

A third challenge is user expectations, which are very high, but the business models are not able to meet those expectations yet. Users want to consume everything when they want it, where they want it, on all the devices that they choose, but businesses are struggling to keep up. There are a lot of really good ideas about how we can meet these expectations, but they only come to fruition when the numbers stack up, when successful commercial partnerships emerge, and when investors are prepared to take the risks.

## VII. Public Policy

Another challenge we see is about public policy in emerging media. Historically viewed this is incredibly pragmatic, but we see a certain ambivalence emerging in some of the public policy debate. It is not necessarily issues that have been discussed in this room, it is a much broader range of issues. We find in new media that as soon as you start opening your networks to users then a whole new range of public policy issues come into play. I would not say that these are having a significant and negative impact on investment, but a trend is being noticed and there is potential for this to undermine confidence in the UK market.

## VIII. Technical Challenge

A final challenge is the technical challenge, and these are things that were touched on in the first seminar. This is about user demand for high capacity and high-speed broadband. Users increasingly value symmetry in their broadband connections, as users participate in media and they create and upload their own content. They notice the difference when upload speeds are slow, and they also value mobility. They want services they are used to accessing on their PC to be available on mobile devices and over mobile networks.

## IX. Conclusion

Overall the UK is in a very strong position, but we are in an incredibly complex landscape, and as we look forward we need to understand and unpack that complexity before we debate the future. Finally, we ignore the consumer at our peril, and I noticed that a lot of the debate has been about the future of public service broadcasting, the future, of advertising and so on. The consumer has to have a big role in this debate, because they will drive the future, and they are driving change. We ignore them at our peril.

**John Willis**

One point that Dawn made was the point about public service content having a must-list status for Yahoo or Google. What do you think about that?

**Emma Ascroft**

Public service broadcasting is regulated in a particular way, for an environment where you could control the user's attention, and you cannot do that any more. Users will choose where they go, what content they view, and so on. The big challenge for this next public service review is how does the content that we produce that has public value reach the audience that you want it to reach. There is not a market failure in distribution, the content will always reach an audience, but whether it reaches the audience that you want it to reach is a discussion. I am not sure that manipulating search results is the way forward.

# Andrew Bud

## Executive Chairman

**mBlox**

### I. Preamble

One of the fascinating things about convergence, coming from the mobile industry, as I do, is how much of my thunder was stolen by what Peter, coming from a relatively different industry, has actually accomplished. There is a rapid process of change taking place, which in some ways is going to be driven as much by the oft underestimated mobiles as perhaps by the internet.

### II. Microbilling

One of the key rules that mobiles has taught us about convergence is that where business models permit a direct to consumer model, it is not only successful, but can eventually triumph. In general convergence changes the rules about the power of scale.

So when you have delivery networks that are unconstrained in their bandwidth, suddenly power shifts from brand to discovery, and from size to monetisation skills. In particular, in that context, mobile has taught us about the liberating power of microbilling, in particular premium microbilling, as a way of kick starting small business opportunities. It is possible for acorns to turn into saplings and small trees without being exterminated by the foliage cover cutting out the light when they are little. That is enormously important, because it completely changes the life-cycle of content and the balance of power along the value chain.

The reason that it does that is because, on a small scale, our revenue per interested visitor is so high it is much higher than any small-scale advertising alternative, and that includes Google links. To give you a sense of the total amount of money spent on premium mobile content in 2006 – that is customers buying in one dollar, euro or pound elements - mobile that frankly none of us would take too seriously, was about $24.5 million. That is the same number the media said was the total world value of internet advertising in that

year. The ratio in the UK is different, and those numbers are changing at different speeds. So today, the UK premium microbilling mobile market is worth about £400 million, which is one fifth of the internet advertising business. The reason for that different ratio is partly to do with technology and, above all, business model constraints. The first opportunity is to do with the opportunities to small-scale created by premium microbilling.

## III. New Formats

A second opportunity is clearly in the invention of new formats. Convergence means that content is delivered by finding new terminals with all sorts of funny characteristics, and the terminals in themselves create a new medium. So, indeed, does context. The psychological place that people are in when they look at content actually creates a new sort of medium. So the combination of strange terminals, and people being in usual places in their minds, creates a new media, and new media requires new formats. New formats for presentation, new formats for bringing brands and characters to people, and that is a huge opportunity for the UK creative sector, which has traditionally found itself at the forefront of these sorts of areas.

## IV. America

The third opportunity, which I was going to pull out as my party piece, because I assumed it was going to be so controversial, is America. That was disappointing! In the mobile industry the UK has not been very rapid to understand that when certain constraints are lifted, and above all when the gatekeeper power of TV networks, or the record companies, is lifted, suddenly being able to produce content in English language, and knowing how to promote it to an English organisation becomes a tremendous asset. America will be a great opportunity, particularly if, as seems likely, they get fast broadband first.

## V. Telcos

Finally, for access networks convergence is going to represent a moment in which they can transform their business models. Telcos still today remain rather fixed into a vertically integrated, one-sided model for their business. They sell services and connectivity to consumers, pretty much full stop. This model will break and is starting to break. It creates a number of regulatory challenges to figure out how to rebuild it in a new way. What is becoming clearer is that there is an opportunity to rebuild that around so-called two sided business models, in which access and service telcos leverage their existing operations and business assets to create new services that are valuable to the content providers, that the content providers will pay for, and will represent a revenue stream that creates value for the content providers, but also gives the telcos a legitimate share in the value creating process for content.

## VI. Threat from America

What are the challenges? America. I spent some of my career in the IT industry, and the lesson there was you could win all the battles you liked in Europe, including in Britain, but the war was always in the US, because the power of scale given by the US was always winning. Convergence works the other way, clearly convergence will give American content providers and promoters access to the UK. I am not terribly optimistic about this, because when I look at US ring tone market, which opened up about two years ago and went from nothing to £1 billion in two and a half years, that market was initially dominated by foreigners, but they were all Italians and Spaniards. There were no major UK content providers with any significant market share in the US whatsoever, and now we are starting to see the domestic US companies, that were forged in the white heat of Mediterranean competition, turning around and coming to the UK. Within my industry I worry about the relative lack of awareness of the opportunities in the US, and therefore the threat that comes from the scale that the American market gives the competition.

## VII. Economic and Business Model

Perhaps the biggest challenge we face is building an economic and business model that makes the value chain work. Super-fast broadband is not a technology problem, everybody knows how to build super-fast broadband now. It could be seen as a political problem, because it requires will, but in reality it is an economic problem. There is no business or economic model today that would justify the investments required by the access industry in the technology that is needed. That is the problem, and the risk is that the obvious solution, which is the development of sophisticated two-sided business models. That is, models that legitimately give telcos a way of sharing the content value chain by selling them valuable services, which, in order to provide scale in the market, requires a degree of cross-carrier coordination, because it is no use if one ISP or one mobile operator offers an enabling service, it does not do it for content providers. The content providers need pretty much all the carriers in the market to offer comparable services in order that they can use those services to gain the market.

There is a risk that regulators, driven either by an imperfect understanding of the competition issues, or by naked politics, actually obstruct the process for coordination that is required to enable carriers to work together. If there is are role it is to bring access networks together, clearly not in an anti-competitive way, but in a mechanism that enables them to develop those enabling service offers with a reduced level of risk and therefore a reduced level of cost.

If we can get that business model right then telcos and access providers will be able to provide those enabling services, amongst which is an enhanced understanding of the context. The two things that created this new media are terminals and context, terminals is ultimately a technology understanding, context requires a greater visibility of information about the consumer and their state, and that clearly gives rise to a number of social and political issues relating to how far people are willing to give access for an understanding of that context. That has to be the subject of a genuine debate, and also of

a degree of education, because a populace that is not very digitally literate may well end up veering in the direction that is irrational from a point of view of self-interest

### VIII. Cultural Understanding

One of the challenges we have is a cultural understanding. We are dealing here with a win-win, a non-zero sum equilibrium between the telco industry and the content industry, and there is always the pitfall of greed that people try to turn it into a zero sum gain, that it turns into a naked power struggle, in which one side tries to maximise its own self-interest. Content is arrogant but small, telcos are huge and in different. I like to say that if the global telecoms industry ate up the global film industry, it would not cover more than about three months' churn. So one of the challenges we have is to understand that both sides of this equation need each other, but this is about winning pennies the hard way, not about ill-conceived gold rushes.

### IX. Vocabulary

Finally, we need a vocabulary. I get myself into terrible trouble when talking to the content industry, because when I say a network I mean a mobile carrier, and when he says a network he means a TV network. When I say an aggregator I mean a mobile transaction network, and he means the BBC. There are a whole list of these vocabulary issues, which we have to get sorted out or we can end up fighting each other about absolutely nothing.

## David Pattison

### CEO

**i-level**

## I. Preamble

There has been a lot of talk about content, and clearly where I have come from is involved in funding content. I have spent most of my career working in what is now called the traditional side of the media, and over the last year I have moved to a couple of providers that specialise in advertising on the internet.

## II. Differences in Digital Media

One of the mistakes that is made is that we assume that all things are the same. One of the things that I have noticed in moving into the digital side of the world is that it is not just another media, it is not just another route to the consumer. In fact, if you look at the internet, it is actually commerce, it is actually part of people's lives. One of the mistakes that a lot of people make, and I was making it up to about a year ago, is that we assume that we are comparing apples with apples. So we assume that television advertising is the

same as internet advertising, and it just is not. The way that the consumer reacts and behaves is different. There is not a single, simple answer to this, because when we are looking at convergence we are looking at a lot of different things moving around.

The other thing is that things happen so much more quickly. The speed is extraordinary. I used to think we had about six weeks to get things sorted out in the traditional space, sometimes we are talking six minutes here. The difference that I have found is that on the internet 80% of the work happens after the advertising has appeared, whereas with television advertising, once the advert has appeared you have done 80% of the work. The way we talk to our clients is the language of commerce, not the language of advertising. So there are a lot of big differences.

## III. Importance of Advertising

Of course I am going to tell you that advertising is very important, and you have to trust me because I am an ad man. Consumers do understand the deal. They do understand that if they want to get some quality content then they have either got to watch some adverts or they have got to listen to a message or watch the sponsorship, or whatever it is. They really do get that. Even in video recording or Sky Plus, all those areas, they still see the adverts even though they whiz through them. Ask any of your children what their favourite adverts are, and they will be very up to date, they will know all the adverts, even if they have watched them at 30 times their normal speed.

Advertising is important, in my view, because it gives information, it encourages choice, and probably the most important thing is it funds most of the industries that we are sitting here talking about. All of the new internet models that you see are advertising funded. I have yet to see a proper successful internet opportunity that does not rely on advertising in some form or another to fund it. Clearly we are going to be relying on putting some new models together over the next few years, and it is incumbent upon us as an industry to come up with those models.

## IV. Advertising Models

The advertising models are changing. Technology is changing consumer behaviour, but if we talk about convergence, if we just think about television, mobile telephony and the internet, we have got three things that consumers react to in very different ways. Broadcast is still largely entertainment, it is largely sit back and enjoy, it can even be something you do with a group of people. The internet is about commerce and interaction, completely different, much more lean forward than sit back. Mobile telephony, a recent survey I saw said that the mobile phone is the second most valued product that somebody has after their front door key, and I am sure it is only a matter of time before the mobile phone becomes your front door key.

So we are dealing with a very personal item. It is interesting that, not in terms of content, but in terms of advertising Google said that last year the total mobile telephony advertising market was as little as £10 million, which probably means it was £5 million. So it has not taken off, we have been waiting for it to take off for five or six years. They

said that 2006 would be the year of the mobile, they said it in 2007. I am told that 2008 is definitely the year of the mobile because of the iPhone, which at least makes advertising readable. You have to wake up to the fact that advertisers are going to be content providers moving into the future. That is some of the only ones they are going to be able to get.

## V. Reputation Management

Social networking, as we all know, is a massive new phenomenon, particularly amongst the younger age groups. They issues that we all have is that consumers can now see everything about companies, they can go through the back door and find out a lot, are they are hugely influential. Advertisers are really worried about reputation management, and it is no coincidence that we are starting to see a lot more advertising around ethical marketing. Some of it is a bit clumsy, but I think we are going to see more of that.

## VI. Traditional Advertising

We must not forget that traditional advertising is still hugely influential. You have only got to look at who is advertising on television to see that. Most of the breaks you go into now you will see the money aggregators, or the car insurance aggregators, they are all internet brands, but they are spending hugely to build brand values, and to force other people out of the market, to make sure they are the number one player in that market. They see television as the route to doing that.

We have got increasing evidence that the traditional media stimulates new media usage. So the amount of business that we get through the internet is actually enhanced when we have a television campaign going on at the same time. If we look at an example of what I call the under pressure media of recent times - newspapers - newspapers were going to die because of the internet. They are in slow decline, but they have not died. They have been really successful in embracing the new technologies in a way that puts their content across. If you talk to *The Guardian* they have now got more unique users abroad then they have in the UK. *The Sun* now talks to 12 million people a week in the UK. 12 million unique users in the UK, and only about five or six million are really users. So those under pressure media have really changed and they are building the new advertising models to work through that.

I do not know if anybody has heard of a company called We7? It is a music download site that Sony have just given their whole catalogue. If you want to buy music from them you have two choices, you can pay 79p for a track, or you can listen to an advert for 30 seconds, and then get the track for free. It is paying artists money, the advertisers are funding that site, and they're not having any push back at all, particularly from the younger audiences.

## VII. What the Advertising Industry Wants

So what do advertisers and the industry really want? We see ourselves as part of the thriving British creative industries. We bring a lot of revenue into this country, and we are pretty self-sufficient, we do not come and ask for very much, very often. Clients still want audiences of the right quality and size in the right place, but we still need to build brands, and one of the things that is challenging us is how we build brands with real brand value on the internet. It is going to be very difficult, television is a fantastic place to have done that in the past, and there is a danger that the brands of the future will be the brands of the past, if we cannot find a way of doing that.

We have had very successful self-regulation, and I would urge whoever is looking at this to let us have that moving forward. I understand the point about privacy, and I think privacy of data is a huge issue, but regulating the advertising industry is not going to help moving forward. We are very good at regulating ourselves.

Where we do need some help is protection from people like Google, who have gone out and said they want to [inaudible] the media in the advertising industry. So we would like some help with that if possible. The only thing that gives me some hope is that ten years ago we were worried about Microsoft being the big bad enemy, and now we are not. So in ten years time it will probably be someone that has not even been thought of yet.

## VIII. Conclusion

In terms of the effects of convergence, there will be new models, and there will be more advertiser content based models. A lot of the models will still rely on the old advertising models, and we [should not be] be too quick to get rid of that. Clearly it is not going away, there is a lot of talk about consumer choice, and self-editing. We must not forget that consumers need to be exposed to new ideas. They do not believe us all the time. So do not assume that consumers do not want to know what they do not know.

# Questions and Answers

**Tess Read, CTT Steering Group Advisor**

Thank you for extremely interesting speeches, there are obviously lots of points to pick upon. I would like to raise two points if I may. Peter, in terms of your point about facilitating sharing content and passing on content, where do you think action should come from on that? I am thinking of the BBC's creative archives project, what happened to that? Does that need to be revised, or do you think action is needed from other sources, is Government needed on that point?

**Peter Bazalgette**

To talk about the BBC would be to go off on a tangent, because that is a case where you could say there is a publicly owned archive, and therefore there might be arguments for making that archive available to people. The function of that might be very useful, because it is rather like the way in which the BBC used public money to invest in online new services in 2001, when the dot com crash came and very few people were investing in online services. That was very useful to the economy as well as to the cultural and democratic discourse of the country. So the BBC thing could be useful, but the broader point I was making is that the content industry is not the same as the music industry, because we have always had broadly a free delivery content model, supported by advertising. So we need to transfer those principles into the digital arena. It is not the same as music that has largely been a retail, pay for it, model.

So we are not so far away, and I do not have the answers, I am asking the question, is that the music industry fell foul by not inventing new models to suit their business model, but letting other people come in and destroy it. We need to invent the models. The last point I was making was it is a sort of post-DRM mode, because it is not the abolition of digital rights, but traditional control of digital rights is like dissuading people from carrying your content, and this generation are all about wanting to do stuff, but they want to do it free. So we have really got to develop those models. The tenor of the debate, the statements from the DCMS (Department of Culture, Media and Sport) about 'we are going to come down hard on ISPs'. It is very short-sighted, it is not the imaginative view you need to take that market forward. They have just been lobbied too hard by a lot of rather narrow-minded people.

**Tess Read**

Dawn, you commented on the sluggishness of bringing on-stream new forms of money from advertising revenue, and I understand that your online person has just started a digital product placement in ITV's online offering. Is that something that you at ITV are behind, and something that you are hoping to expand, and you think might solve some of the funding gap problem?

**Dawn Airey**

Everybody in the sales division at ITV is called Gary. Anything that Gary says going to deliver revenue is a good thing. The answer is, yes, with the current constraint that we have in terms of product placement in the broadcast stream, when we go online we can insert product placement. Actually there have been some really interesting business models that we have been looking at in the US, where they are making content specifically for online. It is totally funded by advertisers through product placement, through association. You will see that model, as Baz alluded to, when the regulation changes next year. You will see clever and smart product integration, in the broadcast stream, as well as online.

Can I extend the debate that you picked up on. One of the ultimate challenges that we have as broadcasters is that we create this unbelievably high quality content, we limit the viewers' access to it, to the broadcast stream, to video on demand, where we can get customers to transact and pay for that content if they missed it, or catch up in our interactive services. Yet the model of television has all been about revenue follows reach, and the more eyeballs you get to a piece of content then the more money you get. One of the interesting challenges, which is counter cultural to what we have done to date, is how do we liberate content and then monetise it? That is a really interesting debate. Nobody has yet had the ball to say, we have produced a piece of drama or whatever, now,

forget DRM anybody can have access to it. You attach a cookie to it so you can see where it goes, you can see who is using it, and then work out how to monetise it. How do you monetise the access to that content? Nobody has yet had the balls to do it. I produce a lot of content from a lot of suppliers, and we in theory have the ability to do that, but we have not quite got the balls to do it.

**Andrew Bud**

Can I suggest that in the mobile world people know exactly how to do it. You make it available, you promote it through search and discovery, and then you let people buy it for £1 to £3 a time, and it works. The problem is that in the visual arts, film and TV clips, there is an elephant in the room that is stopping anybody doing this on a large scale, people in development, initially in the mobile industry, but it will become a problem for the IT industry. For leaner forms of content people have made billions of dollars out of creating content, brand names that you have never heard of have just appeared from nowhere. Selling billions of dollars of content in the form of ringtones, stuff that is two orders of magnitude less exciting than the visual content that is available, yet it still works. So I push back all the time against this presumption that content has to be free. If you give people the choice of buying something that is good, and you give them a mechanism for making it easy to pay for it, then history says they do so.

**David Pattison**

It is very easy to take a model that maybe works for ringtones and wallpaper, and then assume that it works with television where people are not paying for it. Largely people using the internet expect everything to be free, and that is the problem we have got, but it is something we have to get round. I am quite pleased because it means the advertising industry potentially has a future, if only to fund these things that we all like to do.

So I would beware that the success of mobile and its content, it has been successful in certain areas, and it has been markedly unsuccessful in other areas. In terms of Dawn's point, which was how do you make this thing available and then make some money out of it, I still think that advertising is going to be one of the ways we pay for it, we have just got to find a way of delivering that. The thing we have got to be careful not to do is to be so obsessed with the ability to target on a micro level that we give up on broad interest, high quality, big entertainment products, because if we do that we are in trouble, because we will not be able to do all these layouts, and we will be having intimate one-on-one conversations rather than big overall conversations.

**Chris Earnshaw, CTT Steering Group Advisor**

We heard several of the speakers making impassioned pleas for the provision of super-fast broadband. I think it was only Andrew who started to talk about possible solutions in the form of two-sided business models, which to me implies that the risk and the rewards must be shared between all the players in the value chain. Do the other panellists agree with Andrew's view that that is the way forward? Given there was a hint that some parts

of the world might be creating super-fast broadband infrastructure faster than the UK, is there any evidence that that approach was part of that solution?

**Emma Ascroft**

There is certainly a debate to be had about what the business models are going to be for next generation access. In the UK that debate has not progressed very far, we do not have any clear indications from broadband providers what those business models might be. Once we have a bit of clarity as to what those two-sided models may be we can have a proper debate. It is likely to be a complex one. The important thing is that whatever that business model is that it adds value to both sides, and that it is transparent to the user. It is no doubt that users have got very used to exercising their choice, exercising their choice, controlling what they view, when they view it, and for how long, and they will probably have the same attitudes to next generation broadband, and will expect those same choices. They will want to exercise choice about what they see and at what quality.

So, until we have got those business models we cannot really have that debate in the UK. In other countries it has been very clear that there is consumer demand for high-speed broadband, that users are prepared to pay a premium for it, and that users are also prepared to pay a premium for symmetrical broadband. Some of the data coming out of the US is quite interesting. We need to explore in much more detail what users are prepared to pay for, and what they value, and that is going to be an important part of the debate as we move forward. We do not have enough information yet to have that discussion, but it is certainly a discussion to be had, and we are very happy to have it. We have discussions higher up the value chain with network providers about two-sided business models, and access as well, but we do not have enough information to have that debate.

**Richard Mollet, BPI**

I would like to think I am open minded, but we have been talking to Government about ISPs and so forth. At any point in the last 100 years you could have had a Convergence Think Tank and the music community would have been in the room talking about how our interests could be aligned with those of the new technologies emerging, be it the gramophone, radio, television, and up to date with mobile and internet platforms. In the mobile area you can already see that we are pretty much there. Downloading ringtones is now commonplace, and some of the deals that are coming out with Nokia and Vodafone - we have got there. ISPs are the missing bit of the jigsaw, and it is a shame that the debate focuses almost inevitably on the piracy and the illegal downloading part of those conversations, rather than the business model conversations that are also going on. There are two reasons for that. One is the business model conversation tends to happen more in private, for obvious reasons. Secondly, Government cannot do anything about business models, but it can do something about helping combat illegal downloading sites. That is why that tends to get put up in lights.

So we are working with ISPs, both ourselves and British Music Rights, we are getting together to solve this. I thoroughly agree that all content providers want to get their stuff

out there to be accessed by anyone, anytime on any device, but provided there is a method for reporting back the usage. Yes, it has taken a long time for the music community to arrive at that mechanism, I think we are pretty much there, but we had to have it in place, and that is why there has been some of the historical problems you alluded to.

**James Thomson, Cullen International**

I have a question that can be addressed to the whole panel on online advertising revenues. There was an Ofcom report last December, an International Communications Market Report, which showed that the value of online advertising revenues in the UK was substantially higher than in other major west European markets, such as France, Germany and Spain. Why here in the UK is online advertising so much higher? If I compare the UK to France, broadband penetration is comparable, and IPTV is a lot more successful in France than it is in the UK.

**David Pattison**

It is a mix of a few things. In terms of marketing services the UK is a world leader, the way that we have always led the advertising industry. We have always been an embracer of new technologies as a country, and the shape of our advertiser model is slightly different to some of the other markets in Western Europe. Other than that it is that we have embraced it more quickly than anybody else. The others are catching up. The English language is probably a large part of it, because there is a lot more content available for us to advertise in, but it is extraordinary that 40% of total European advertising comes from the UK. I think as a percentage we are miles in front of the US, who are technologically more advanced than us, but in marketing services we are in front of them. I do not know the total answer, but we have embraced it and we are getting results from it.

**Chris Marsden, University of Essex**

I would love to have heard Andrew's answer to Chris' question about net neutrality, because clearly Andrew is particularly anti net-neutrality, and from a mobile background that is not surprising. It would be interesting to hear other people's views, I am guessing that Dawn is quite anti given the comments about Google. It is very interesting that when you do look at successful high-speed broadband countries, there seems to be very little you can draw from commonality. Japan has very good high-speed mobile, which is built very much on the model that Andrew was talking about, but in the fixed space there is probably even more cognitive distance between content and networks than there is here, despite that they have rolled out very fast broadband. So if you look at mobile it looks as if cooperation worked, and avoiding net-neutrality worked, and in fixed it looks to be the complete opposite. Either that means that mobile and fixed have relatively little to teach each other based on that example, or that actually there are a lot of different ways of getting to the right place and that maybe the message is that we need to be very careful about regulating this space. I am wondering if the panel as a whole has views, because

people have somewhat pussy-footed around the net neutrality point, even though Andrew did tackle it head on.

**Andrew Bud**

In the mobile industry I am the bar bore of data charging models. There are two aspects to the net neutrality issue, one is data charging and one is everything else. The big one is data charging. The reason why there is no mobile video or TV, and very little download music, is because mobile has tried to copy the internet business model, but in a completely inappropriate way, and it has failed. The net result is that today about 5% of people have all you can eat data packages, and the other 95% do not. The result is that if you try to sell someone a three minute video, you are likely to land them with a data charging bill that is between three and 20 times what they paid for the content. Clearly you cannot build a sustainable business model on that. The mobile industry itself is in huge denial on this, because they say all you can eat will fix that, which is great, because the mobile people would consider 50% penetration of all you can eat data packages as being a huge triumph. It just does not work. In the mobile world it is already clear to everybody that there is only one solution, and that is that the access networks provide, as an option, the ability for content providers to pay for data on a sender pays basis, much in the way that Amazon pay for postage associated with sending their books. That is a cost that is rolled into the overall content price.

For various reasons lots of parts of the industry are in denial about this, particularly because they say the internet does not work that way. Then when you look at the internet, and talk to the ISPs, the ISPs have begun to realise that the all you can eat data model is a failed model as well. It does not work. Demand for all you can eat data only works if demand for data, implicitly, is finite. What we are learning is that demand for data is almost infinite. The more services you give people the more they will use.

So it is quite likely that the economic model of the ISP will be so broken that they are forced into a carriage charge model as well, which will lead us to an environment in which people pay to get access to a world of content, but that the carriers also, fixed and mobile, end up offering content providers the opportunity to pay carriage charges for data on behalf of their users, to ensure universal pricing transparency. This is to me a win-win. The consumer wins because they get more content and more price transparency, the network wins because they have a scalable economic model that grows as data traffic grows. The content providers win because they end up with an economic model which, although not quite as lush as they might like, actually enables them to take content to the market in a transparent and ethical way.

That is why I get so angry with the net-neutrality people, because they are trying to stop that happening. All the other services, the value added, service with context, service with presence information, consumer insight stuff is, in some ways, much less controversial because it is much newer and people see the value. The fight for the hill will be over the data pricing.

**Emma Ascroft**

There is clearly a discussion to be had, and nobody denies that there is a capacity issue with existing broadband and in the next generation world that needs to be addressed. There are an increasing number of services that content providers provide, that users value, that will rely on quality of service and low latency, and we need to find a technical solution to that. Transparency to the end user is incredibly important, and the model that Andrew has just described is not necessarily transparent to the end user. I am banging on my consumer drum again, but the analogy that Andrew used about Amazon paying the postage is very interesting, but it does fall down, because that is the basic offer to the user, but the customer then has the choice whether they pay extra to have it delivered next day, or in two days, and so on. It is the user who chooses, and under this model those decisions are made on behalf of the users, and I just do not think that internet consumers are going to appreciate third parties making those decisions on their behalf. We really need to understand what exactly it is the user wants in the next generation world, and what they expect. At the moment the user does not have very good role in this debate, and in order to understand its complexity we need to reflect the user dimension in the plan and talk to the wider group.

**Dawn Airey**

The issues have been covered. One of the interesting debates is the whole question of interoperability between devices, and how can there a serious exchange so that we do more transactions. The elephant in the room is how we get these multiple devices seamlessly talking to each other, and accessing the content that we want. That is something that we have not addressed.

**Ian Locks, PPA**

I crave indulgence for a minute to put down a marker on behalf of the second part of that, business media. It is not something that has been mentioned at all, and looking at the programme I do not think it will be. However, it is a £23 billion content and services sector, not small, and certainly not arrogant. The only point I want to make is to put down that marker to the CTT, because it is a sector that can be damaged, it is becoming increasingly global, therefore it does not need to be based in the UK, as we have seen with the recent merger between Thompson and Reuters, and we need to look after it. So please do no harm, and please be aware that you could do harm if you play things the wrong day. For example, the recent effort to abolish the Database Directive. The Commission was completely unaware that in abolishing it, it would damage industries that are primarily Dutch, British and American. So I put down that marker.

**John Willis**

It would be helpful to have markers, and if you could do that by putting in a paper.

**David Happy, Communications Management Association**

A couple of observations, and I have got one quote from each of you that you said about super-fast broadband in the context of regulation, and then I am going to ask you two related questions. Peter, yours was about the Titanic bar bills, BBC iPlayers, creaking networks and deregulation. Dawn, yours was about regulation needing to change radically. Emma, yours was about users wanting symmetry and mobility, and the capacity issue with existing broadband, 'we need to find a technical solution to that'. A point from Andrew, it is an economic and political problem, data charging 'yes I am interested in hearing some solutions'. Also one from David, 'I do not think regulating the advertising industry helps'. Two simple questions, is the regulator therefore able to cope? Two, is it fair to expect them to be able to cope, because they are always going to be behind technology? If they are not able to cope then who can?

**Peter Bazalgette**

The regulator is not the great mother, and we hide under the regulator's skirts. The most important function of a regulator is that of an economic regulator, to create and help create dynamic marketplaces, competition and innovation. My simple answer would be, I am not speaking about regulators coping, I am talking about them as an enabler. I do not entirely take the terms of your question.

**Andrew Bud**

My observation from working in many countries, because we are active in about 17 countries worldwide, is that the UK probably has, whatever its defects, amongst the most pragmatic, flexible, transparent and honest regulatory structures in the communications area. Its defects could be a great deal worse.

**Emma Ascroft**

Whether the regulator can cope depends on what the business models are. There is a wider value chain that now relies on the underlying structure and how regulators regulate is always a big issue. This is a conundrum that the EU is dealing with now. It is important to leave as much as possible to the market, but to have safeguards in place, that all stakeholders who rely on the infrastructure can call upon in the event that there is uncompetitive behaviour or a problem with that business model. If we have those safeguards in place, then we should let the market develop. It is also important that the users are the ones in control about what the networks do, and what kind of service they get. So it is all about the users' market, and then regulating for the event that there is a problem in that market.

**Nick Toon, Channel 4**

I wanted to pick up on Peter's point about deregulating advertising. The panel seemed broadly in agreement with the fact that we need to find new ways of engaging consumers with advertising on new platforms and embedding commercial messages in content. If we are going to find ways of funding content that is fairly clear. However, in

contradiction to Peter's call for deregulation of advertising, what we are finding is increased regulation of advertising, and the certain kinds of content can be advertised, whether it is food, alcohol or other things. We seem to be living in a period where there is increasing moral and social panic about the commercialisation of life in general and childhood, which runs contrary to the idea of embedding more commercial messages in content in all these places where, as David was saying, we actually transact our lives increasingly. I wonder if Peter had any observations on that, and also to register with the panel whether the DCMS and DTI are going to be talking quite early on to other Government departments, so that thinking around this area is as joined up as it possibly can be.

**Peter Bazalgette**

It is a really good question. Obviously advertising has to be legal, honest, decent and truthful, in other words, like other activities, business and otherwise, it has to be done in the correct manner. The recent desire and intention to ban certain sorts of advertising at certain times of the day is completely ludicrous. If you want to talk about the problem of obesity in society there are a thousand things you would do before you meddled with advertising, particularly when kids are getting advertising messages from all sorts of other places, all of the time. It is anal politicians responding to single issue pressure groups and wanting to prove they can do something. It is utterly pathetic and completely misapplied.

**John Willis**

David, from an advertising perspective is regulation getting worse?

**David Pattison**

It is certainly getting worse. To your previous question, I was going to say that regulation should not be used as a political tool and I do not think it should be done for the sake of it. If there is no regulation required we should not regulate. We talk about the internet being a place of absolute freedom, and yet we are sitting here talking about how far we are going to regulate it. Those two things do not gel with each other. It is still the case that the most viewed content on the internet is pornography, and yet we are worrying about food and soft drink advertising. The whole thing is bizarre.

**Emma Ascroft**

I would agree with you. The advertising industry feels under siege, there is a vibrant debate about some big policy issues that Government has to discuss – obesity and all these other issues. We are accountable as much as anybody else, but it is the starting point that we need to be clear on. The starting point for the debate is that self regulation of online advertising is the only thing that works, it is the only regulatory framework that is scalable, practical, and operationally feasible. It works, it meets the needs of a fast moving industry, and anything that steps back from that is difficult. So that has got to be the starting point, and that is where the debate that we have now lacks discipline. The

debate should be about the most appropriate framework and how we regulate within that framework.

What we would look to BERR and DCMS to is to discipline that debate, and to help to frame that debate as we move forward. The CAP codes are being revised this year, they will be looking at a lot of these issues, they will be looking at the public concerns, but that is the proper place to have that debate, and we need to bring the other Government departments to the table to have that discussion, and those public interest groups as well. So it comes down to how you frame the debate going forward.

**John Willis**

Obviously the Convergence Think Tank will be linking in to work going on across Government and the regulatory sector. As the work goes on though the year, reviews are happening in other Government departments, and so we are not doing this in isolation. Thank you very much to the panel.

# Possible regulatory and policy responses: how best can the regulatory framework ensure competition and innovation, benefiting consumers and industry, in a converged world?

## Helen Weeds

**Lecturer in Economics at Essex University**

### I. Preamble

Thank you very much for the invitation to speak today. I am going to focus fairly narrowly. I will be talking in the context of television broadcasting, but my comments have a much wider application now that we have multiple platforms, and to different methods of delivery than the traditional linear broadcasting. Hopefully we will see the wider implications of what I am saying. I was given a remit to think about whether there is a case for action to ensure effective access to key networks and / or access to content, and the implications for future regulatory policy.

### II. Shift in Focus

We have seen something of a shift in the broadcasting industry. There used to be a lot of concerns about access to transmission bottlenecks. So we used to be in a system with just one platform, which was analogue terrestrial broadcasting, very limited capacity on it, but technological changes have transformed that environment, the environment within which broadcasters operate. So we have seen capacity expansion due to digitalisation, massively increasing the amount of space that content can fill. That creates a huge desire

on the part of network operators and the broadcasters to get content to fill it, and to sell something. We have also had a proliferation of platforms. So instead of just having terrestrial transmission, we have got cable, we have got satellite, and we now have the beginnings of IP television delivering high quality video content over internet links. So we have potentially competition between those platforms as well, rather than just competing broadcasters on a single platform.

## III. Access Regulation for Networks

We have a system of access regulation to networks that is fairly well developed, at least on certain of those platforms. So under the system of regulating access to electronic communications networks, we see we have regulation of access to Sky's satellite platform through SSSL, a subsidiary that sells access to its production system. Digital terrestrial is also covered by that framework, as we saw last week with the merger of the terrestrial transmission companies, there will be a system put in place for oversight of their charges. In IPTV, with the extensive regulation of broadband, local loop unbundling, which gives competitors the ability to offer very high quality services by taking control of the local loop. Again, there is an access regime in place that hopefully will be effective to ensure access to that network. The remaining system, cable in fact, is the one without an access regime in place.

## IV. Access Regulation for Content

So we have access regulation for networks. The main concern more recently has been about access to content, in particular to premium content - I will say in a moment precisely what I mean by that. What this has tended to mean in practice is the popular sports, in this country particularly football, and also Hollywood movies.

So there has been a concern that premium content, when monopolised and used by a single broadcaster, could be used to distort competition at the retail level, competition for subscribers to paid TV operators. There have been a number of cases in the UK and elsewhere where this issue has arisen. Starting from the UK, in 2002 the Office of Fair Trading conducted an extensive investigation into wholesale supply of Sky's premium channels. We also now have an ongoing investigation by Ofcom into competition in the paid TV industry. I am not involved in that investigation, I am not commenting directly on what Ofcom should or might do in this investigation, my comments are more general, but they do relate quite heavily to the issue being looked at in that investigation.

We have also had things like Sky's desire to offer a pay TV service on digital terrestrial, that is being looked at as well, and the commercial dispute between Sky and Virgin Media over certain programming supply between them.

## V. EU

More widely in the EU we have seen instances where competing satellite broadcasters have been allowed to merge, which then raises issues of access both to their networks and to their content. So in Italy the merger of Stream and Telepiu in 2003, and in Spain a

similar merger in 2002, what ability do other broadcasters, particularly entrants, have to get access to networks and to content? In the Italian case the merger was clearly subject to quite extensive requirements of the merged entity, to give access both to its platform and to its content, or to restrict the type of contracts, exclusivity contracts, that it could take out over content, to leave rights available for other broadcasters on other platforms, or within a fairly short place and time limiting the duration and scope of exclusivity to try and limit the ability to monopolise content. Scandinavia is something of an exception in that there are still two competing satellite broadcasters, both of those have taken out exclusive contracts over premium content as a mode of competition between them.

## VI. US

The US, where satellite is much less important, has nonetheless seen similar issues in cable, where in a few instances there have been over builders. So they have built a second network in the same geographic area, and similar issues then arise over getting hold of the content to show on a network. That is very important to content there. Recently there have been issues over the satellite being smaller there, and the satellite entrants Sky TV taking out exclusive contracts over sports rights to try and build up its foothold in the market.

## VII. Premium Content

I am going to focus on the role of premium content in pay TV competition. Although I am talking mainly about television, similar principles would apply to other media you can think about, in something other than traditional linear broadcasting the same issue arises, because the provider will need access to content in order to offer a service of that type. So I am asking the question, when would the broadcaster with premium content have an incentive to refuse to supply this to other broadcasters, to its rivals?

By premium content I mean something fairly precise in economic terms. I mean something that is very attractive to viewers – viewers are willing to pay a lot of money for it, and it has a strong pulling power in terms of which broadcaster, as its rival, would sign up to. They may all make their choices as to whose service to take, purely because they can get certain content. If you really love watching football, you will want to sign up for a package that has the football rights. There are few substitutes, for football lovers there is not much that would make up for them not being able to watch their favourite matches, and it is difficult to replicate. For sports it is hard to imagine creating a separate league that would be as powerful or as attractive as the Premier League.

## VIII. Selling Rights

So when these rights are sold collectively, and they are effectively monopolised at the start of the chain, when the rights are sold to the broadcasters, there is a danger that those rights are sold on together. With one package, or even with multiple packages, they could still end up relatively concentrated when it comes to selling those rights to consumers.

When a broadcaster has premium content, for integration between the rights and the broadcaster, although I will talk about a broadcaster holding rights, the same principles would apply even if it was simply a sports league deciding how to sell its rights through various broadcasters. It would make the same choices as to whether to supply one broadcaster and one platform, or multiple broadcasters - whether to supply exclusively or non-exclusively.

For anybody with premium content there is a tension between two incentives. In supplying other broadcasters, who may have consumers signed up that you cannot reach yourself, there is the attraction of getting wholesale raise. There are fees paid by other broadcasters in order to show this content. There is also increased advertising revenue, because the reach of the content is increased. So, there is a direct revenue gain for supplying more widely, rather than keeping the content exclusively on your own channel, your own, or your own delivery mechanism. Against that is the premium content has a very strong pulling power. It could be used to skew people's subscription decisions and make them sign up to the content holder's own platform or service. So that in the short-term, in the static sense, there is the direct revenues from subscribers that come from winning an extra subscriber, by being the only service providing, say, the football rights. There is a direct revenue gain from that, and there is also potentially a long-term benefit from getting people signed up. This is an industry where people buy equipment, they make certain longer-term decisions when they take a service. You may lock people in for a while, and that has a longer -term benefit than just the revenues gained today or this year.

## IX. Selling to other Broadcasters

I am going to talk about the tension between those two forces, of which I have done quite a lot of analysis. Essentially when you look at these incentives in terms of the static effect, the revenues today, from selling content to one's own subscribers, versus selling more widely through multiple channels, supplying other broadcasters, one finds that non-exclusivity is a very strong result. There is a very strong incentive to supply content to other broadcasters to sell to their subscribers. Even though, if one did not do that, one would win subscribers from them. It is more efficient, and more profitable, to supply through other broadcasters. This is in a world with per subscriber wholesale fees.

The key mechanism here is that by setting a price per subscriber to other broadcasters, this, in effect, determines the retail price at which other broadcasters will supply to their subscribers. Retail competition is softened by this, the controller of the right determines the retail price of the content, and for this reason it may as well sell through whichever platform can win subscribers most effectively, and serves them most cheaply. This is why you get quite a strong result in many instances, and you can see this when premium rights are re-sold to other broadcasters. This does raise certain issues, the regulatory issue that might arise here is what controls, if any, should be placed on the means and the contracts by which a holder of premium rights re-sells those to other broadcasters. This was the focus of the OFT's 2002 inquiry into Sky's wholesale programming.

## X. Regulating Wholesale Fees

Would it be desirable to regulate down those wholesale fees, because by doing that you would lower the retail price, but on the other hand this runs two risks. Firstly, if a broadcaster can only charge a regulated wholesale price for its content, it may well lose the incentive to supply it at all, so it risks refusing supply by the content provider, which would then mean content is not available on multiple platforms when otherwise it would have been. Secondly, more fundamentally, any regulation of wholesale fees would effectively regulate the return to content. We have seen we have regulated fees for access to networks, which is not entirely straightforward, doing LURC-based costings for any kind of regulated access system is very time consuming and complex. I find it hard to imagine how we would start such a process on the content side, we could not be using LURC methods for setting prices for content.

So we get into an order of magnitude more complex process when we start to think about regulating access to content in that way compared with regulating access to networks. Even with networks, as we have seen, the incentives to invest in a network itself are crucially dependent on the access regime that is put in place for it. I have hard a number of people argue that the current access regime for local loop unbundling undermines BT's incentives to invest in fibre to the home. This is happening in other countries, but currently is not happening here. However, you would risk similar underinvestment issues by regulating access to content.

## XI. Exclusivity

As I have said, when you do what I call a static analysis, in terms of current revenues, there is a very strong incentive for a broadcaster with premium content to supply other broadcasters. This raises something of a puzzle, why do we see exclusivity in such instances: we see it in Scandinavia, and we have seen elements of it here, what explains this? It could just be a breakdown in negotiations. Obviously there is a price to be determined, if parties hold out negotiations may break down, even the complainants in these kinds of instances have commercial interests that they are trying to defend. If there is a regulatory regime for the wholesale price, of threatened intervention of wholesale prices, that may undermine the incentive for a broadcaster to supply it to rivals in any case. However, that would not seem to be sufficient, there could be something else going on here as well.

## XII. Dynamic Issues

This is where dynamic issues become important, what I call platform competition. Can a broadcaster build up its subscriptions to its platform in a way that benefits it in the future, as well as today? This is what I mean by platform competition. When one takes this into account, there is a trade off between supplying content now, in order to gain the wholesale revenues and the wider audience reach, which gains advertising revenues. All of that is foregone if the broadcaster withholds its programming and just supplies its own

subscriptions, barring there will be an increase in the subscriptions too, but that is not enough to explain exclusivity.

When one incorporates these dynamic benefits, as I have analysed in my work, one can find instances where there is an incentive for the content holder to choose exclusivity, to keep its content to itself. However, the instances where this takes place, where the platform competition does generate an incentive for exclusivity, are quite subtle. Detailed analysis is needed of the cases where this will and will not happen. One cannot jump immediately from saying that this is an industry where there is platform competition, there are incentives to get people signed up to one's platform to saying there is automatically an incentive to withhold programming for this aim. I am not involved in Ofcom's review, and these are the kind of issues they would have to look at very carefully before reaching a conclusion that there have been anti-competitive motives for withholding programming.

## XIII. Withholding Programming

The kinds of instances where this may happen are where it is possible to exclude a rival completely from the market that would provide a very strong incentive to deny programming, war of attrition between two satellite broadcasters as we have seen in Italy, with the merger, in Scandinavia it is ongoing. One can explain exclusivity in those instances as being motivated by a desire to drive out the rival. If that was possible it would be very strong incentive. On the other hand, in a situation where we have just one satellite operator, we have other networks, where again, driving them out of business is not a particularly plausible argument. Take cable, where the wires are literally sunk, whatever happened to the commercial buyers, the wires would remain sunk and somebody would be supplying content over them. It is not possible to drive out that sort of rival.

None the less, even in less extreme situations there may be incentives to withhold programming. Consumers incur some costs where they adopt a broadcasting mechanism, switching costs then, as moving between them, creates a kind of lock in on the viewer's side. That may provide a sufficient incentive for broadcasters to use highly attractive content, to keep it to themselves, in order to get consumers to lock themselves in to their platform rather than other people's. That gives them a long-term benefit. That may, in some instances, be sufficient.

## XIV. Investment in Platform

Incentives to invest in the platform itself, so currently making systems capable of delivering high definition television, for example, these are very expensive investments. They are fixed costs, it does not matter how many viewers you have it is going to cost you the same to upgrade your network to deliver high definition. So the incentives to undertake investments depend very much on the number of people you can supply those products to. A broadcaster with a large subscriber base has a stronger incentive to make those investments, and it might be easier also to raise the money to make those investments. So this may provide a motive for skewing subscriber shares in order to become the bigger network and undertake more investments, which strengthens the firm more long-term. On the other hand this creates a mixed outcome for the viewers, although monopolisation and limited ability to get hold of the content may be a bad thing, on the other hand they will then get a high quality network delivering it. Maybe there is a network that has high definition capability, whereas otherwise you might have two rather lower quality networks instead.

Finally, market entry; there is the possibility of content being used to help an entrant into a market, rather than by an already dominant to dominant firm to maintain or strengthen its position in the market. In the US, where satellite television is by far the smaller player, with about 10% of the viewership, direct TV, signing contracts to get exclusive content, has arguably been more of a survival strategy than a market entry strategy, and increasing competition in that market rather than an anti-competitive strategy.

## XV. Key Messages

To sum up the key messages, when looking at competition issues in this industry, and in particular the use of content as a mode of competition, there are very strong incentives to supply content to other broadcasters. That is often forgotten in the debate that we hear. Nonetheless, when one thinks about dynamic incentives and platform competition, there can be instances where exclusivity would be chosen by content holder, but the conditions are sensitive and detailed analysis is needed. I would caution against any rapid jump to the conclusion that this must be going on, if one sees exclusivity it must be anti-competitive.

Further to this, vertical integration, which has been the source of some discussion, is not really the issue here, where I have talked about a broadcaster using its rights. Assuming the broadcaster already holds the premium rights the same outcomes would be chosen even if it was a separate upstream entity, say the FAPL started supplying its rights directly itself through different platforms, it would have the same incentives as an integrated broadcaster in terms of how to maximise the returns on those rights.

If one decides that there are problems over access to content, that would seem to call for some sort of regulation. I would argue there are quite a lot of inherent dangers in doing that, it would involve complex issues of an order of magnitude greater than access to networks that we already have.

Finally, backtracking a bit, we assume that somehow it is possible to monopolise the rights. A big part of the problem here has been the way in which the rights are sold, the OFT tried in the 1990s to eliminate the collective selling of the rights. I would argue this is an important part of the root of the problem, that when rights are sold by one entity, arguably a cartel, and if they can be sold in way that is very concentrated - the EC has taken certain steps to reduce that by forcing the different packages of rights to be sold to more than one buyer – it is quite easy to see how this problem can arise. There is one block of very important content; it is possible for it to be gained all or mostly by one broadcaster, which then can make choices about how and where it is supplied. If the selling of the rights itself is more competitive a lot of these issues might be avoided.

I have talked about broadcasting. I think similar issues would arise if one thinks about other ways of supplying the same sort of content through other media. I have talked about IPTV here, mainly as an analogue of television broadcasting, but I gather that earlier this morning there was more discussion about non-traditional, newer types, of delivery of content. The same sort of issues would arise there depending on whether the providers of those services need to get hold of content in order to attract users to their websites, or whatever mechanism of delivery they are choosing to use. I hope that has helped illuminate these issues somewhat.

**John Willis**

Thank you very much. Before we come on to the rest of the panel, we will just ask the advisors to the CTT whether they have got any questions?

**Robin Foster, CTT Steering Group Expert**

Helen you gave us a detailed account of competition issues in the current marketplace. Can I ask you a more general question, which is about convergence, and whether the aspects of convergence make you more or less concerned about the competition issues that we have been confronted with in the broadcasting sector up to now? Do you see scope for regulators to start to pull back in any sense from competition regulation, or do you think there are similar or perhaps even more important issues down the line that they should be worried about?

**Helen Weeds**

The aspect I touched on a bit was the proliferation of platforms. Arguably with what convergence is doing there is we can now use telecoms networks to deliver much higher bandwidth services. If broadband speeds improve then offering high quality television-like services over telecoms networks becomes feasible. We have already got satellite, cable, et cetera. So, if that aspect is what you mean by convergence, it would seem to lessen the concerns on the network access side somewhat, but only somewhat, because if you look at it from the point of view of individual viewers they may well not have access to all of the different delivery mechanisms. Cable only passes half of the households in the UK, upgrades of the telecoms networks may happen in a patchy way as well, plus people may have quite strong preferences as to how they receive their television broadcasting, they may well not regard delivery mechanisms as substitutes.

To the extent that that is true then simply saying that you can now get your content through all these different methods may not be sufficiently competitive. Hence, the existing regulatory regimes for each platform, to ensure access to the satellite structure to the local route for IP television, and so on, may well remain important even as we move ahead. It remains to be seen how far these networks develop and how much of a

substitute people believe they are. If they are, regulators may wish to roll back some of the access network provisions, if not, they may need to be maintained.

Are there more important issues? One thing that comes up is there is a danger in the way in which regulation works on each different platform does run some dangers of distorting people's choices between them. Why do we have one network cable for which there is no third party access at all when the other networks do have access? Does that risk distorting the development of each platform in a way that might be undesirable. So it raises more issues for the regulator, and potentially more dangers in terms of how the regulation is implemented, whether it distorts those investment decisions by the company, and the adoption decisions of the viewers.

**Robin Foster**

One probable outcome would be that we may have a relatively small number of network providers, possibly each part of a vertically integrated organisation which also offers content, and the approach that OFCOM has taken with BT in that circumstance is to ask for some clear operational separation between the bottleneck of the network and the rest of the business. Would you see that as being an approach that regulators might have to think about for other platform or integrated platform service providers in the future?

**Helen Weeds**

The answer to that would depend a lot on a lot of technologies, which I am not an expert on. So whether it is even feasible to do the same sort of thing for cable - I am not in a position to answer that. I have heard people say it would be a lot more difficult. The idea of a separation, which arguably reduces the ability to discriminate, for instance, BT Retail's service as a user of a local route versus other people that are not BT but also use the local route, seems very desirable. I am not sure how easy it is to roll that out, and there is also the big issue of what does this whole system do to the incentives to invest in the network itself. We have big issues in this country at the moment about whether the old copper wire, which apparently can give people 8 megabits per second, and does not actually give many people that anyway, is that going to get upgraded? It is hard to see that anybody has any incentive to do it under the current regulatory regime, whether in the long run the consumer detriment from holding that back is worse than the benefits we get from another regime is a very interesting question.

**John Willis**

Thank you very much. We will come on to BT in a bit more detail later.

# Diane Coyle

## BBC Trust

### I. Preamble

I am going to pick up on a point that Emma emphasised in the first section, which is the importance of keeping a consumer focus in this debate. I am here speaking as a regulator, both a regulator of the BBC, through the responsibility of the Trust, and also someone who has been a member of the Competition Commission for the past seven years, although not in this industry.

### II. Audiences

It struck me in debates at the first Convergence Think Tank seminar, and elsewhere, that a lot of discussion is about platforms, technologies, industry and business models. So the first point I really want to emphasise is the importance for regulators of keeping consumer welfare and audiences at the centre of that debate, because for the BBC Trust audiences are core to what we are trying to achieve. We have underway a programme of research and consultation to understand what audiences want, and you will hear more from us about this, and we have put some detail in the submission that is on the Convergence Think Tank website.

### III. Content Innovation

The first point emerging from that is that convergence has by no means arrived. Most consumers want their content through traditional methods of distribution, and even those using new methods of distribution are not using them for the majority of their time. So there is a lot of very rapid change, but currently – and this is not surprising – people are choosing the established methods of distribution.

If you ask them what you think about innovation they do think it refers to technology, and the BBC is driving forward digital technology in the UK, but what audiences value is innovation in content. They talk about wanting fresh new ideas, because innovation is all about technology and that is not really very interesting in itself, but they do want content innovation. What they think of as innovative is fascinating, and I do hope you have details. If you ask what the high quality and original programmes on the BBC are, some of the answers are obvious, like *Life on Mars*, but also at the time [inaudible] was being repeated, and scored really highly on both quality and innovation, as did *Antiques Roadshow* and *Last of the Summer Wine*. So understanding what audiences mean by innovative is actually quite a difficult question.

We did some surveying about whether audiences thought the BBC was innovative enough in delivering that content innovation. This was one of the areas where there was a gap. 72% said it was important the BBC has fresh and new programme ideas, and only

51% said they were performing well. So one of the challenges that we set the BBC executive is to do better on that content innovation score.

## IV. Universality

That is not to say that the technology is uninteresting as well. The overwhelming priority here for the BBC Trust is ensuring that we do not have a two-tier communications society in the UK. The market must serve audiences both by providing content, but also by providing access to technology for all audiences. Of course, universality has always been central to the BBC. Convergence gives it another dimension, and we are determined to be at the forefront of ensuring that all audiences have access to the content that they want, and in the way that they want.

## V. Challenges

Against this background I would highlight three challenges for regulators in the converging world, and that includes the BBC Trust in its regulation role. One is the access question, in setting the framework how do we ensure that some audiences are not left behind. Second question, raised by the first panel this morning, was how we ensure that the market delivers the potential benefits of new technologies, what regulatory framework is going to support the business models, as well as the excellent public service content, and there is a role for the BBC in both aspects of that. Thirdly, how do we ensure that convergence contributes to a strong, UK creative economy in the global market, and what is the BBC's role in that as well.

## VI. Role of BBC

We see the role of the BBC as being more important than ever. Access is a real challenge, and it is one in which we can hope to play a constructive part. Also, focusing on the BBC's role in the wider UK creative economy: we currently have a study underway by PriceWaterhouseCoopers to look at this, and we see scope for enhancing the BBC's contribution in our public value test process, and also in our other capacity for non-public services. We pay really careful attention to the market impact of BBC activities, not only in the sense of minimising negative impact on the market and competition, but also looking at potential positive impacts. In these markets where there are network effects and economies of scale, there is an important role for the BBC.

Examples include enabling produces to operate at a scale that makes them globally competitive. We are very keen to engage with industry stakeholders to take these discussions forward, and if anybody here is interested in that competition I urge you to get in touch.

### VII. Conclusion

Our key principles are the audience focus with a very strong evidence base, and universal access to both outstanding imaginative content and new technologies.

# Dan Marks

## Chief Executive

**BT Vision**

### I. Preamble

I will address a few points raised by Helen's presentation. I recognise the picture of dynamic and static and foreclosure that was described, but I think the dynamic foreclosure goes further than that. It extends to the extent to which restricting access downstream actually restricts the competition upstream. That is an important market dynamic. Secondly, if you see the enormous output of Ofcom, and the people who contributed towards the market investigation, I do not think there is any question that anyone is jumping to anything on this one. This is about as far from a jump as you can imagine. I think it is a carefully considered process. Thirdly, you mentioned anti-competitive motives. I should point out that Ofcom's consideration of the market investigation is not really about anti-competitive motives, it is looking at the market from the Enterprise Act, which is out of shape with the market, and the extent to which it is competitive, rather than the motives of any of the participants in the market. However, if I can park those, and say what I really came to say.

### II. Broadband

Earlier this morning it was very heartening to hear that there was the recognition of broadband as both the engine and logic of convergence. Broadband is the thing that converges devices [needs], it happens when devices become points on the end of a broadband network, when they become IP addresses. It is the mechanism by which interoperability is driven, it is the mechanism by which consumers start to get the kind of choice that we have in our minds. The possibility of any time, any place, anywhere, the so called Martini proposition. It also gives birth to a whole lot of new services that are driven by the kind of context that was talked about earlier, the idea of understanding where people are and what they are doing, what they want, and how best to give it to them. So these ideas of choice that extend not just to how you look at things, when you look at things, and what you look at, but how you pay for them. That is all driven by the logic of broadband; it is the engine of change.

## III. Network Investment

The question is how to make all of that a reality, how to make it work. It does not happen automatically; it requires an enormous investment. It is worth sketching out where that investment is happening and what it is. The investment is at the level of the network, and I am not just talking about the deep level of network, about which I should say I cannot really speak to very much. That is a BT Whole question, I sit here as someone who

works for BT Retail, there is a very high and deep Chinese wall between those two businesses, and for me to know anything would be quite wrong and it does not happen.

However, there is investment both at the network level and at the retail network level. That is to say at the level of the network, which we operate. Network investment to allow the support of a steady 2meg line between the servers that hold content and the set top boxes in customer's homes, to allow that to operate seamlessly in two directions, to deliver content instantly, at high quality, to the television set, and securely, so that content owners have confidence about accountability. There is huge investment in the consumer management, that is to say in billing, and understanding the customer relationship and managing it.

Then there is huge investment going on in creating the kinds of services that are going to change television, that are going to convert the PC and the TV. That bring the accountability of the internet into the living room, that allow advertisers to target and therefore to get very high cost per thousand. That allows the economic model to develop that is the counterpart to the fragmentation, which we heard about earlier. The two things go hand in hand, to be against fragmentation is like being against running. Fragmentation is a function of broadband. It is a fragmentation engine as much as it is the convergence engine. The compensation for fragmentation will be hugely increased ability to get people's intention, and huge increases in efficiency around transactions: retail businesses, games, transactional opportunities of all sorts, possible in your living room, and in the context of television, not just in the context of the PC. That coming together is complicated, expensive and needs to be managed.

## IV. Access to Content

I have left out the one really important bit of that, which is access to content. That is what customers want. There we have some regulatory challenges which need to be met by way of coming to terms with the meaning of competition, the meaning of public service, in the broadband age. We look over at the broadband business itself, which is exceptionally competitive, as has been noted before. It is competitive as a result of regulation, which caused BT to grasp the wholesale opportunity, and allowed competition for BT's Retail business from very formidable and effective competitors such as Sky.

So we find ourselves, as the builders of this new television service, in the funny position of competing with Sky who are very effectively building a broadband and telephony business, and their entertainment product, where we are hugely regulated on the broadband side, operating in an extraordinarily competitive market. In the entertainment part of that, we believe we work at a disadvantage in the sense that we do not have the advantages that we want to see of a hugely competitive content market. That is what convergence means, it means that none of us – BT, cable and Sky - have the opportunity to only do one of those things. That is because customers want all of them; they want and expect to see a relationship with a single provider of entertainment, of broadband access, and telephony. We are going to provide it to them.

In response to the market investigation we have made substantial representations to Ofcom about the shape of the pay television market, and the extent to which that is functioning well. We do not believe it is. We have laid out why we do not believe it is, in short, it has to do with Sky's particular place in that market, their ownership of content, and the terms of which it is made available.

## V. Public Funding

The other thing that I wanted to mention is the public service issue, which I want to recast a little. While Ofcom are pursuing an investigation into pay television, we do not see a similar kind of focus on the economics of content ownership and its funding by the public purse. We think that broadband raises all sorts of questions that need to be debated substantially by everybody in this country, and they are really deep. They are radical questions, they are questions about market failure, the extent to which that is important, they are questions about the remedy to market failure, and the extent to which that is meaningful and how that functions in a broadband world. More pointedly they should focus us on something that we have not really questioned up until now, and that is the extent to which the burden of public funding is shifting from the Government in whose gift spectrum used to be, to ISPs, who now provide spectrum. They do not provide spectrum at zero cost.

Whereas spectrum was just assumed to be a gift, and was a gift, of the state, and could be seen as zero cost, there are very significant consequences. The burden shifting means that, from BT Vision's point of view, there is a triple whammy. The first is that there are direct costs to us of carrying public service content and delivering it to people where they want it and how they want it. The second is that there are opportunity costs with that. That distribution is happening in the context of an investment in a commercial business. The third is a related point, which is that the distribution of that content is depreciative, and that after its public service distribution it becomes a commercial product, which is depreciated by the investment that the ISP or the broadband provider is making in delivering that content efficiently.

## VI. Conclusion

That raises all sorts of questions, and I do not have an answer, but I have a lot of desire to debate the issue. In the context of a broadband world I think we need to rethink how the license works. I know that particularly the proposal by the BBC, Channel and ITV to launch Kangaroo, which is a commercial venture in which the programming of those three companies collectively must account for an extraordinarily large amount of the ratings in this country. We look forward to debating these issues, particularly over Kangaroo, because there they become extremely pointed. We have not started that debate, but we hope it will be thorough and soon.

## Simon Waldman

### Director of Digital Strategy and Development

**Guardian Media Group**

### I. Preamble

I am going to talk about three or four things that I think should be providing a framework for regulation, and shall make no apologies for the fact that we are a newspaper group that has got some radio and classified businesses. In this converged world public sector broadcast is going to affect us like never before, what happens digitally with PSBs in the future is actually affecting newspapers and radio stations as we all blur together. As we all start to fish in the same pond for advertisers and audiences the lines between us are increasingly invisible, and there is potential for significant collateral damage as the public sector expands online. One clear issue for us at the moment is in local markets, as we see the BBC expand its digital offering, and we have local and regional newspapers, and how those are affected.

### II. Competitors

The whole point is that we are not hugely concerned about competitors who have the questions as us and the same issues as us. Our two biggest types of competitor now, all the way around our group, tend to be from global technology players who are able to leverage international and global development of software in very local markets. So that is Google adverts, which have been developing fantastic software in California that has been taken up by an advertiser in Stockport, even if no one in Google actually knows where Stockport is. The other thing is the role of the BBC.

So convergence is two things, one is that it is very important we start to think again about ownership and how that affects local markets, and also about competition and what we are allowed to do when we have multiple products and it is also affecting an issue for us around the BBC, which I will come to.

## III. Commercial Innovation

Something that was clear in the early session is just how important it is that we realise that innovation has to be both creative and commercial. We have to build the next generation of media businesses in this country. That is a really significant challenge for everyone involved. If you listen to some of the sessions earlier, there is an enormous amount of uncertainty about future revenue models, and that is critical. My fear here is that when I have listened to a lot of debates coming out of Ofcom in the past, I have heard a lot of talk about content innovation, in the realms of PSB a lot of talk about public intervention to help drive a new form of content. From the outset we have to

develop new content businesses that are economically viable and operate both creatively and commercially. That is going to be incredibly important.

## IV. Advertising

We need an environment that is rich in entrepreneurship and innovation for small scale. Traditional players such as ourselves also need to have the compulsion to innovate, we have all hitched our star to advertising, but it is not going to be enough for us to simply gather a few eyeballs on the web and hope we can make money from it. You talk about advertising moving towards commerce, and more interaction, what are we going to do about that and how is it going to work. Not only that, in a landscape where we are competing with much bigger players than ourselves, if you take all of what you might call the major traditional UK media, ourselves but also ITV, Sky, all the newspapers, I doubt we take more than 15 to 20% of the total UK online advertising market. We are quite small in this. So there is a long way to go.

## V. Transition

The third thing is that this is a particular moment in time. This process of transition is not particularly pretty, and it is not clear yet what the outcome is, and the regulator has to consider the importance of the businesses that are currently going through this transformation. If you look at the share prices last week, you saw what happened to Trinity, and if you think of the brands, if you think of the created investment in those businesses, we are all in a world where we can see our existing models have got a limited sell by, but at the same our visibility of the future – at best we can see 30 to 40% of that. That is a particular challenge. So, again, it is very important that we start to think of the impact of major public intervention in our markets. It is such a tricky phase, I do not know if there is a point when suddenly we look back and go, that is all over, but I do not think that is going to happen. We need to realise that we are going through quite spectacular reclassification of the marketplace, and that is quite tough.

## VI. Peripheral Activity

A final point is something about a bundle of peripheral activity; one is IP in a distributive landscape. I do not think the relationship between content providers and search and aggregation has been of equal value on all sides. Search and aggregation and making our content discoverable has been a huge lift, and it is all about being part of the ecosystem of the web. That is very important to us, but increasingly we that more and more value is going to be made away from our site, on the edges, however you divide that. That is not an economic transaction and we have to think of the best way through that to help with the origination of content.

### VII. Conclusion

My final teasing of bits of legislation are niggles around our contempt laws, which still make it tremendously difficult. We now operate with pretty much everything that goes

into the newspaper in one place. It is difficult with the existing contempt laws, and some of the liabilities around user generated content, which remain a constant challenge for us. Those are the things we spend a huge amount of time internally having to focus on, we are not exempt in any way.

## Questions and Answers

**John Willis**

Before we come to the audience I am going to ask Diane to respond to the point that Simon made about the BBC's thumbs being on the windpipe of other organisations locally, along with the point that Dan made about the funding of content.

**Diane Coyle**

The most constructive thing I can say to both is that we are hugely in favour of competition. The last thing that we want to see happen is an adverse impact on the commercial sector from BBC activities. We have a fair trading regime that covers Kangaroo. I would much rather have a conversation with BT Vision before-hand, rather than face a fair trading complaint later. So let us go out and do that. On the local markets we will have a formal public value test, Ofcom will be carrying out a market impact assessment, and there will be a lengthy consultation. We will do absolutely everything we can to ensure there is not an adverse impact. It would be easier if people knew the answer to what the viable business models are, and even we are struggling with the same kinds of uncertainties.

**Simon Waldman**

Our chances of success are considerably less if the BBC implement a massive global digital strategy. This is where it goes back to my point of timing, in three to five years time our digital business will be much more robust. Right now we are very fragile, just the expectation of BBC activity has affected some markets. We are talking about profound structural change in the local audience market.

**Diane Coyle**

The only other thing I can add is that the BBC has a lot of local activities and you do need to look at the proposal when it has been published.

**Simon Waldman**

Generally the Trust has been very good news in all of this.

**Participant**

We heard about the importance of the small innovators, and before the break about the giants getting together. Simon do you think the period we are in now, where there is a bit of stand off and uncertainties over how the big players are going to work together,

presents you with opportunities, and whether that can be extended to small innovators in the digital space in general?

**Simon Waldman**

For us, we have to see everything that is going on as an opportunity, we have to drive our business in that way. One of the things I feel very nervous about in the regulatory context is that is not actually where we want to drive the business, we do not want to sit here complaining about what is going on on the outside. For all our businesses we see tremendous opportunities, and that is very important.

The other thing that has happened in the last year to 18 months is the level of innovation and entrepreneurship in the UK, which is fantastic. We have seen Last FM, of European origin, going to CBS, and we saw BeBo going to AOL earlier this week. I think one of the interesting things is whether we think that model is what we think is best. If you spend time with venture capitalists at the moment there is no shortage of fantastic innovation going on online, and that is something we really want to see more of.

**Philip Guest, UBS Global Asset Management**

In our household my three year old son is incapable of getting through a day without watching at least one episode of *Thomas the Tank Engine,* my wife is a fan of *Coronation Street*, and my mother thinks David Jason walks on water. I am not particularly interested in football, I am interesting in knowing the views of the panel as to why football should be uniquely the attention of the regulators, when all of these other alternative forms of content are not?

**Helen Weeds**

These other things are more substitutable, and therefore they compete with one another, whereas the problem with football is that, at least for quite a sizeable chunk of the population, there really is not a substitute. Hence, it has the pulling power I was talking about earlier

**Philip Guest**

I can tell you there is no substitute whatsoever for *Thomas The Tank Engine!*

**Helen Weeds**

For the individual, yes, but from the point of view of the broadcaster in trying to attract audiences, you may show *Thomas The Tank Engine* and get your three year old, but you could show *The Tellytubbies* and get a different three year old. There are different ways of attracting audiences with a lot of different content. It is differentiated where people have individual preferences. That is true from an individual's point of view, but with the broadcaster just trying to attract viewers in general there are substitutes. To use an analogy, there are lots of different types of cheeses, I might just love eating camembert, but there is no particular reason why Sainsbury's has to sell that rather than other things.

**Philip Guest**

Could you not argue that there is only one type of camembert and one type of Champagne, perhaps all you are doing is looking at sport as a very narrow view, and then looking at an even narrower view, and saying that football is a very narrow part of that, and then going into that and choosing FAPL. If you define the market in any particularly way - I could argue that Dan Marks is a monopolist in the delivery of compelling television over IPTV platforms.

**Helen Weeds**

This is in danger of getting a little technical, but you cannot just define markets any way, this is something that economists in competition cases spend a lot of time doing. The OFT did look at how to think about content markets when they conducted their review in 2002. So football in particular, but also premium content more widely, perhaps other sports rights and the movies, are distinctive because nothing else competes with it enough to constrain the price. That is the technical definition that economists and competition people use, whereas, even if you are sole controller of the broadcasting market, it does not give you a power to raise your price in a way that being the sole provider of FAPL does.

In part, this is a characteristic of the UK, and other European countries, that the top league of football just does have that power, that level of attraction, to a fairly sizeable chunk of the population. Rupert Murdoch called sport the battering ram of pay TV, and that does happen to be the case. The US arguably is different, because there is not just one sport that has quite such a big pull, there are a number of sports that each have a fair amount of pull but, again, from the broadcaster's point of view, as long as you have enough access to one or some of those, you can compete in the marketplace, you can get subscribers, even though your subscribers will be the people who love that particular sport. The role of top league soccer here is that strong, that is the market we are looking at, and that is what an analysis would give you.

**Jeremy Dear, National Union Journalists**

On page three of the documents we were given this morning, it sets out the objectives for a converged world as open markets, empowered consumers and citizens, and universal access to high quality content. We all understand the business opportunities, we see Richard Desmond talk excitedly about how he uses his newspapers to drive traffic to premium rate phone lines, to adult internet sites, and x-rated TV stations, and how Rupert Murdoch uses his newspapers to drive subscriptions to Sky TV, and so on. We heard this morning about *Deal or no Deal* promoting online gambling. So there are lots of business opportunities, but we have heard little mention about some of the other aspects of the benefits of convergence, in terms of public interest, news and current affairs, and citizens' access to information. Given we are talking about regulation, how can we use regulation to do the other aspects of this, one, empower citizens, and, two, ensure universal access, and so we avoid creating the two-tier communication society that Diane talked about.

**Diane Coyle**

As I was saying, universality is a really important principle for the BBC. I was taking it as a given that there is an important public service broadcasting role in the future, and that is the other part of what Jeremy is talking about. Perhaps I should have been more explicit in saying that. We have a healthy mixed creative economy in this country, it has done very well, the challenge is to make sure that in the content of rapid technological change and business model change, we continue to have a thriving mix of economies.

**Dan Marks**

Broadband driven services are the answer. As, the cost of spectrum drops, and certainly the cost of storage will drop enormously, we will be able to start serving those communities that have been underserved by broadcast television. We will be able to build communities around that, and not just to optimise them to the gambling or playing games, but by serving their interest in diverse ways, just as they are serviced on the PC. That is what we are building.

**Participant**

I might have misheard, but I think I heard Diane say that the BBC had a prime purpose in driving forward digital technology and that the BBC was concerned to secure access to technology for all audiences. I know the BBC has a mission to distribute content as widely as it can, thus maximising the public value, but you are talking about maximising content. You are not talking about subsidising technology?

**Diane Coyle**

No.

**Participant**

I thought Kangaroo had been authorised, in fact I read about people being appointed to run the project, and it is interesting that you now invite BT to come and talk to you about it for fear there is a complaint after the event. Secondly, could Dan unpack for us what issues you see specifically with Kangaroo?

**Diane Coyle**

Kangaroo has been authorised, but not launched, and is still being shaped.

**Dan Marks**

I am not sure I can do this in the level of detail you may want. We would certainly like to understand more about Kangaroo's aims and its intentions, the extent to which these three PSBs are using public funds in a way that is consistent with building competition.

**Diane Coyle**

It is a commercial activity, we are not using public funds.

**Dan Marks**

I understand that, it is probably worth discussing the relationship between the PSB and funding worldwide, and the extent to which that is consistent with the market investigation. I have some questions about it that are worth raising.

**Diane Coyle**

We are very happy to discuss that.

**Dan Marks**

I welcome that.

**Neil Watson, UK Film House**

Were there to be a new Communications Act, outwith public service content, is there any need for sector specific regulation or should it all just be left to the Competition Act and the Enterprise Act?

**Helen Weeds**

That is quite a tricky one, one could say the same about gas and electricity, why do we still have a separate regime for that. My starting points are very much on the competition side, so in many ways I would favour a competition-driven approach. What arguments are there for something beyond that? One advantage of the sector regulator is their knowledge of the industry, can they use their knowledge of the industry to do the competition side of the work better? Under concurrency rules the Competition Act and the Enterprise Act are implemented by the sector regulators, and do they have advantage in doing that, because, for example, Ofcom knows the telecom sector so well.

The sector regulation goes well beyond competition, obviously through public service broadcasting there are a lot of issues to do with that, there is content regulation, what we receive thought our TV sets, that is not a competition issue. Are you asking whether that should be allowed to fall away?

**Neil Watson**

I said outwith public service regulation, which I accept…

**Helen Weeds**

Clearly you are extending the public service regulation to include limits on advertising for example. It is not PSB as such, but there is a lot of content regulation there.

**Diane Coyle**

From the Competition Commissions' perspective the sector expertise is quite important, and there distinctive features of these industries. As we have just discovered, the integration between public service and commercial ought to have its own supervision.

**Emma Ascroft**

Simon alluded to some other regulatory frameworks that are very important in the online world, particularly liability, contempt and so on. This think tank is primarily looking at the next Communications Act, and what it might be. Does the panel think that we could be looking far too narrowly and that we do need to look at a wider regulatory and legal framework?

**Simon Waldman**

If you take this shift of what is happening you cannot be wide enough, is my general thought, even if there are a number of things that are going to fall out, this issue out of IP, which is incredibly important for the web, and I mentioned contempt – all of these things are going to change and they all affect whether we are going to have successful additional content businesses. If you are running a business these are the themes that affect you on a day-to-day basis. Day-to-day some of the real business risks and challenges we face are going to be about structure.

**Dan Marks**

The Audiovisual Services Directive, and the extent to which it is incorporated into the UK regulatory regime is a very interesting question and needs further discussion.

**James Tompson**

My question is about buying exclusive rights to content and then being forced by regulation to sell on those rights to my competitors, rather than selling those rights on, on the basis of my commercial position. The situation here in the UK would be premier league football matches. I thought that the remedies were imposed by the EC were designed to address part of that problem, like forcing the premier league to sell the rights in six packages, and it is not obvious to me that because Sky have always bought four or five packs, that other potential bidders were excluded, such as BT, Vodafone, or other big companies with deep pockets. So the competition buying rights were open, and then regulation coming afterwards to force potentially an acquirer of exclusive rights to have to make them available to companies that did not bid - I find that strange.

**Helen Weeds**

You raise a very good question in that the OFT looked at wholesale by Sky in 2002, at a time when Sky had bought all of the packages on sale. So the first attempt by the EC to break up the selling of the rights did not work, because Sky simply bought all of them. Hence the last time around there was this rule that somebody else had to buy at least one. So we now have some competition, in that at least two different broadcasters do hold the rights. If you could get the competition working properly at that end, you would need to worry much less about resale, you would have different people holding different parts of the rights, and incentives to resell them would be much stronger anyway, because once you do not monopolise the rights in the way that Sky has done up until this year, you cannot do the kind of things that distort the platform use. So it is a question of whether

what has happened now is sufficient. In a way it remains to be seen whether breaking up the rights really reduces the prices of those packages and helps them be provided more widely across the market, or on better terms.

The other thing is that broadcasters need to know the regime that is going to apply once they hold the rights in order to start bidding. There is a bit of an incentive to hold out of the auction and pick up the rights cheaply afterwards by complaining to the regulator to get them on preferential terms. There is a danger of that happening as well. Dan made a point about the way in which platform competition then distorts the actual competition for rights, and that comes up here as well. So there have been a lot of complains about that, and does building up a big subscriber base then strengthen one party, unremarkably Sky, in bidding for the rights. Those arguments are weaker than they appear on first look. When I thought about these in depth economically they are weakened simply because, once you hold the rights there is such a strong incentive to provide them across the market in order to gain all the revenues, the static effect that I talk about. So those sorts of arguments need very careful analysis before something that, on the face of it seems plausible, is accepted.

**Dan Marks**

We are trying to give that very careful analysis, and needless to say we are not in agreement about that point. I would make the point that market investigation is not only about sport, it is about the market and Sky do not just own sports rights. The rationale is that if a company does restrict access to content the reason that one might seek to force a wholesale market to developing content is the same reason that the regulator forced a wholesale market with developing broadband; it is good for the consumer.

**Helen Weeds**

My point is that the incentives are important, because you seem to assume that they have to be forced. If you look at it carefully that is not necessarily the case.

**Dan Marks**

That is why this is being done carefully. It is not a response to a whim on the part of the people who made their representations to the regulator, and I certainly think it is dangerous to assume that the regulator is responding as conscientiously as it is on the basis of some weird idea or capricious thought that they have. There is an issue here in this marketplace, and it is being examined carefully, and I think that is entirely appropriate.

# Closing Remarks

## John Willis

**Chairman**

### I. Preamble

It is my job to sum up. I am not going to do that elaborately, but maybe just highlight some of the points that have come up today, some emphatically, some less emphatically. These are issues that certainly the Convergence Think Tank will continue to grapple with, and we hope that you will continue to participate in the process.

### II. Broadband

Peter made the case at the beginning that high speed broadband was the answer to lots of our concerns, although it is not clear who is going to pay for that and how it is going to be delivered. There was a lot of discussion about the creative economy and the wider business economy, framed at the edges, a creeping period, as Simon says, of a rather bloody transition. What are the economic models in the converged world, we heard about microbilling and product placement, but ultimately a little bit like we imagine Tim Henman sets out Wimbledon, he knew he was never going to win but he always hoped he was. There was some level of optimism.

### III. Digital Divide

The digital divide was raised by a couple of people, and that is clearly an issue that we need to grapple with, and perhaps you can couple that with media literacy. Again, in the broadest sense, if you deliver all the high speed broadband, how are you going to get people to use and interact with content in the most creative way? There was no mention of radio, which we think is an important issue and something that we certainly must not let slip off the agenda.

### IV. Intellectual Property

Intellectual property is clearly a critical issue that was raised by a lot of people. The power of Google, the power of Microsoft, and what is the UK's response to that. Net neutrality, there was a fierce debate about that. The issue of local content was raised by Simon. Mobile: the question of mobile versus broadband, and we must not underestimate what the potential is and how much there is to be done in the mobile space. Advertising and regulation were other issues, and then we have been talking about premium rights and access

## V. Consumer Focus

Coming back to one thing that Diane said, which is consumer focus, because in the end it is about the customer, the consumer, the citizen, and then coming back to something I mentioned right at the beginning, which is this is about innovation. Not always creative innovation, which we have heard a lot about, but also business innovation, to pick up the point that Simon made, that someone can create Bebo and create a lot of value, not just for themselves, but for a lot of other people too.

Those are the issues that we are going to continue to grapple with. We hope you will come to the next seminar, on 22 April 2008. We hope that you will continue to interact via the website. Thank you for coming today, and thank you to our panel.