

ONdigital Response to Proposed New BBC Digital Channels

1.0 Introduction

While this response offers specific views on the BBC's proposed new digital channels, ONdigital believe it is important that the Corporation's plans are considered against the wider backdrop of achieving analogue switch over. As such, we offer a number of policy suggestions, within the context of the BBC's proposals, which we believe will help Government achieve its goal of ensuring the UK becomes a fully digital nation.

The take up of digital television has, to date, been driven almost exclusively by the pay TV platforms – Sky, ONdigital, ntl and Telewest - offering new pay channels via set top boxes which are given free with subscriptions.

ONdigital has played a significant role in this process, in particular by attracting consumers who have in the past proved reluctant to embrace satellite or cable television. The majority of our one million customers are new to multi channel television. This is due, in part, to the ease with which consumers can access ONdigital (plug and play technology delivered through a television aerial).

It is also important, in the context of the BBC's digital plans, to stress that digital terrestrial television (DTT) will eventually be the means by which most people will transfer to digital, with many using integrated digital televisions (idTVs) to do so.

1.1 The Importance of DTT

The roll out of DTT services is of particular importance to the BBC, as it is with other public service broadcasters. While the BBC may enjoy some "must carry" protection on satellite and cable, these platforms are owned and run by commercial broadcaster/producers whose own channels and services are in competition with the BBC. Therefore the BBC services can expect to be marginalised on these platforms, subject only to whatever regulatory framework is enforced. Only on DTT does the BBC actually control the bandwidth it occupies, giving it freedom to develop new enhanced services and get a "seat at the table" as the platform develops. Without a successful DTT platform, the public service broadcasters

will be handing the presentation of their services in the future into essentially unsympathetic hands.

The launch and roll out of DTT has required very substantial investment by ONdigital's ITV shareholders (Carlton and Granada) through the provision of free set top boxes and in funding the expansion of DTT coverage. The cost of doing so is proving to be significantly higher than was anticipated by anyone at the time of the franchise application. This investment continues, but we believe it is inappropriate for one group to bear such a high proportion of the responsibility of DTT, both in terms of funding and the production and/or acquisition of "must have" content. The BBC DTT multiplex was gifted, with few responsibilities, and it effectively has a 'free ride' on the DTT platform. The BBC now needs to play a much more positive and vigorous role in driving the take-up of digital terrestrial services. This situation is inconsistent.

2.0 Driving Digital Take-up

The financial, social and economic benefits of a nationwide switch to digital broadcasting are not in dispute, but all of us, including the Government – and the BBC, must embrace the challenge more directly if the targets set by the Secretary of State in 1999 are to be met. Consequently the BBC's digital proposals should be considered against this wider backdrop of achieving analogue switch over.

It is essential that we move to a more equitable and supportive political environment, with the Government and the other public service broadcasters fully focused on a programme that will drive DTT and achieve analogue switch over sooner, rather than later.

2.1 Government & BBC – key to achieving analogue switch over

In view of the BBC's gifted capacity, its unique publicly funded structure and strong public service remit, it is important that it is tasked by Government to play a much greater role in driving DTT and the take up of digital services. Specifically, the BBC should be obliged to:

- produce attractiveworthwhile digital content with powerful consumer appeal;**
- produce digital services which may not be delivered by the market;**

- ; and produce digital enhancements for a range of existing analogue programming;
- promote this digital content both on and off-air; and
- make a more significant financial contribution to DTT coverage roll out.

Ensuring high quality, appealing content from both free to air and pay broadcasters is one route to help drive the switch to digital services. It is equally important that Government gives greater support to help to drive the *way* in which BBC and other digital channels can be obtained.

To this end we urge Government to ensure that the BBC:

- supports and promotes a digital kitemark scheme for idTVs to identify which sets can receive the new channels;
- promotes *how* the new digital channels can be obtained, as well as not just *what* is on them; and
- mounts a public information campaign to address the consumer confusion about digital TV.

In parallel with this, we believe Government should:

- relax the cross promotion rules currently applied to ITV that prevent it naming the ONdigital platform, while allowing it to name the cable companies; and
- require TV manufacturers to include digital receivers in new sets after a certain time. This will help to ensure that BBC and other free to view digital channels are made available to as wide an audience as possible.

It is important that Government embraces these policy initiatives in the context of the proposed new BBC services, as they will help clear up confusion, and drive digital awareness and take up - particularly among those people who have so far expressed little interest in digital TV.

The Government should also take this opportunity to level the playing field between DTT and satellite. Today the BBC pays Sky for carriage on the satellite platform, as a contribution towards Sky's provision of set top boxes and conditional access. The BBC makes no such contribution to ONdigital. Free to air channels should pay all platforms, or none of them

3.0 Proposed New BBC Digital Channels

We broadly agree with the BBC's view that there is a large group of people who could be persuaded to take up digital television through more attractive, high quality free to air digital channels and interactive services.

This fact underpins our general support for the BBC to strengthen its digital offering by re-launching Choice and Knowledge as BBC3 and BBC4. ONdigital customer research indicates that these existing channels are not currently attractive enough to draw people to digital television and do not fare well when ranked for popularity against the pay channels. Any improvement in the BBC's digital channels is therefore to be welcomed.

4.0 BBC Children's Channels

While ONdigital broadly supports the BBC's desire to strengthen its digital offering, we do not believe that it should do so by replicating services already available in the commercial arena:

~~unless they can be shown to: a) have a direct and positive impact on driving digital take-up and b) meet with the BBC's public service remit.~~

To this end we have particular reservations concerning the BBC's plans for its two dedicated children's channels. These channels would enter an already crowded market place and compete against commercial channels such as Nickelodeon, Cartoon Network, Disney and Fox Kids*. It is concerning that the proposed BBC digital children's channels - funded by license payers' money - would effectively reduce the audiences available to these channels*, possibly threatening their commercial viability. The BBC's plans may not solve a market failure, they could actually create one.

Children's pay channels have been an important factor in driving the digital pay TV market - some 50% of children live in multi-channel TV homes. The introduction of competing children's channels from the BBC would be likely to distort the market, taking some existing pay television subscribers out of the pay TV market, and undermining existing channel and platform businesses.

Just as the introduction of BBC News 24 undermined Sky News and made it far more difficult for ITN to enter the market for rolling news, so channel providers who have invested heavily in existing children's services would be undermined. The BBC should be perfectly at liberty to sell its programs to existing children's

channels, thereby enhancing its revenues and supporting the funding of future programs. It should not be allowed to use public service funds to distort existing markets.

However, we are not convinced of the evidence to support the BBC's view that dedicated children's channels will help drive digital. The late adopters of digital will fall into two main categories: those who do not want extra services and those who cannot afford them—such as the elderly. It is difficult to see how dedicated children's channels will drive digital take-up in this important group.

4.1 A sports channel?

In addition, we would very strongly oppose the possibility of the BBC launching a pay sports service, either unilaterally or in conjunction with a third party (pay broadcaster or otherwise). The sports market has been dominated for many years by a single provider who has abused its dominance to the disadvantage of subscribers and other platforms. Sky has acquired the vast majority of the most attractive sports rights, and has come close to saturating the market for sports fans, effectively foreclosing the opportunity for any competing player. Because Sky has used its dominance of these all-important sports rights to abuse its competing pay platforms, (DTT and cable) ONdigital has chosen to invest very heavily in breaking Sky's stranglehold in this market. Against all odds, ONdigital is about to launch the first non-Sky premium sports channel since the launch of pay television. This will be difficult enough.

However to seek to do so at the same time as a public service broadcaster is using its (publicly funded) brand and (publicly funded) resources to distort competition still further would be intolerable. The addition of yet another new sports service, subsidised as it inevitably would be (directly or indirectly) from the license fee, could have the effect of ensuring that no new service is successful in breaking Sky's damaging stranglehold on this market. This would be wholly unacceptable.

5.0 Proposed New BBC Digital Channels - ONdigital Key Points

With regard to the BBC's plans for its new digital services, ONdigital:

- supports the role of public service broadcasting in the digital age;

- **believes that strong free-to-air digital channels and interactive services will have a role to play in driving digital take up among those who have shown little or no willingness to embrace pay TV. In doing so, strong free-to-air digital channels can help Government bring the benefits of digital to all and achieve its stated goal of analogue switch off;**
- **broadly supports the BBC in its desire to improve its digital offering;**
- **supports the BBC in its desire to rename Choice and Knowledge as BBC3 and BBC4 as we believe this is likely to grow awareness of digital services;**
- **believes that in order to grow awareness of digital TV, it is important that BBC analogue services actively cross promote BBC3 and BBC4. It will be important that viewers on analogue are clearly and simply informed about how they can access the new digital channels. Thus, cross promotions should make reference to idTVs and to name, by brand, the different pay platforms. This suggestion could form part of, and complement, a wider digital public information campaign led by Government;**
- **believes that the BBC digital channels should be obliged to offer interactive services to enhance the channel offering (such as that offered by the BBC during Wimbledon and The Open) and which differentiate them from current analogue services, thereby adding value in the eyes of the license payer;**
- **suggests that the BBC focus its resources on a few channels and services – to maximise their quality – rather than spread funds and effort too thinly across other services and channels. Thus, we suggest the BBC should focus on developing its digital television channels 3 and 4, and less on digital radio;**
- **believes the BBC's plans for two dedicated children's channels should be prevented, due to their distorting effect on existing commercial children's channels and on take-up of Pay TV platforms; and**
- **believes that the BBC should not be permitted to enter the market for the provision of new sports services.**

We would also like to reiterate that:

- at present the BBC has to pay to appear on BSkyB, whilst ONdigital and cable carry the BBC free of charge. It seems unfair that licence payers' money is being used to subsidise the Sky platform. It is important that this situation is rectified and that the BBC is carried on the same terms on all platforms. The BBC's latest digital proposals add further weight to this argument; and
- the BBC has benefited significantly from ONdigital's investment in DTT. It is because of ONdigital's free set top box offer and investment in growing DTT coverage that the BBC has access to 1 million digital viewers. We believe, particularly in light of the BBC's latest digital proposals, that it should now take on a more equitable role in growing DTT coverage, specifically with regard to funding transmitter build and upgrades.

Finally:

- it seems counter-intuitive that the BBC is planning to launch new services at the expense of BBC Parliament which continues to operate as an audio only channel. We believe Government should seek clarification on the BBC's plans for its Parliamentary channel – particularly in the context of its public service remit - before agreeing to the BBC's other proposals.

ONdigital
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