

Franco-British Lawyers Society

“The Uniqueness and Future of Channel 4”

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1. Channel 4 is an unusual television channel. There is nothing quite like it anywhere else in the world. This afternoon I want to tell you how it came about, how it works, and how it fits in to the increasingly complex broadcasting environment of the 21st century.
2. Channel 4 is about to have its twentieth birthday. It was born into a bygone age when there were very few television stations. In Britain at that time there were just three: two run by the BBC on the proceeds of the compulsory Licence Fee, and ITV, a federal commercial network with a monopoly of the television advertising market.
3. A fourth channel had been discussed for some time. With a Conservative Government in power, there wasn't going to be a third BBC channel. No, the fourth channel was clearly going to be funded by advertising, and the general expectation was that it would be a new but smaller version of ITV.
4. Something surprising happened. Instead of producing more of the same, the Government created a completely new structure for the new fourth channel. Yes, a channel funded by advertising, owned by the State. But also a channel with specific obligations, laid down in law, to pursue much wider editorial and programming aspirations than commercial television is normally expected to deliver. The special Channel 4 programme remit was a recognition that viewers are not just consumers, but also citizens. It was a recognition of a public interest in diversity and innovation that goes far beyond what the market alone is likely to deliver. Channel 4 was specifically required in its founding statute, to be different, to add to what ITV was producing, not simply to replicate it.
5. That was a bold idea in the early 1980's, and it was underpinned by three other provisions which were key factors in realising its ambitions. First, for its initial decade, Channel 4 had secure funding. ITV sold the new channel's advertising airtime as well as its own, and then returned a fixed percentage of the total to Channel 4. That meant that in its early years the channel could grow, and experiment and find its new audiences. without having to fight head-to-head for revenue ITV itself. In those crucial start-up years it was essential to define the innovative character of

the channel without fears about ratings and revenue blowing the project off course.

6. Second, we were given an unusual Board structure: eight non-executive, and seven executive members, appointments made/confirmed by the regulator now called the Independent Television Commission at arms length from Government. So Channel 4 was able to become a robustly independent broadcaster, free from Government interference, and free from the pressure of shareholder interests.
7. Third, and most revolutionary for the time, Channel 4 was not set up to make its own programmes. It was set up to commission them from independent producers. This idea really broke the mould in British broadcasting, where the old duopoly of the BBC and ITV owned their own production facilities, and used their own staff to make their programmes. Channel 4 was not going to be another production factory. It was to become a home for ideas, a place where producers could come with the creative projects that didn't fit in the old system. This was an initiative which offered a new outlet for producers who didn't want to work in the old production factories, whose ideas were deemed too risky on the existing channels, and for those who wanted to build their own businesses.
8. In almost every respect Channel 4 broke new ground. It was a commercial channel, whose programming objectives were set as a matter of public policy to add to the range of choice available to viewers. . There were and are severe limitations on, for example, the number of imported programmes and repeat programmes; and requirements for minority programmes educational and religious programmes and so on. With a structure as complex as the rules of cricket, it was able to break through the traditional constraints of commercial television. It was free from the need to deliver dividends to shareholders, and it was free from the revenue generating imperative which rigidly puts the requirements of the paying customers – the advertisers' – ahead of the wider interests of the viewers.
9. Channel 4 blossomed. It was free to take risks, it was free to experiment. It had independence, it had a clear purpose and remit, and above all it had the enthusiasm to harness the creative talent to deliver the programmes to fulfil its expectations. The channel's dynamic was editorial. In collaboration with the independent producers it experimented with new formats and new ideas.

10. Channel 4 broke much new ground. An hour-long, analytical news programme in peak-time, *Channel 4 News*. *Brookside*, the first soap to tackle social issues. *The Bandung File*, multicultural programming at the heart of the schedule. *American Football*, and other sports never seen before on British television. *Saturday Live*, a groundbreaking comedy that launched a whole generation of new talent. *Diverse Reports*, a new genre of opinionated current affairs. And many, many more.
11. If the creation of Channel 4 was a political gamble, it was one that paid off handsomely. Channel 4 manifestly added to viewer choice in the UK, in the range of its output, in quality, in innovation, in imagination. By 1992 the newcomer had achieved a steady 10% audience share. It had also become a major investor in UK creative talent, nurturing and supporting new talent. The channel continues to commission over three hundred separate independent production companies every year, around half of which are based outside London.
12. Channel 4 has also had a close and beneficial relationship with the British film industry. It has helped fund and support some of the seminal British films of the past twenty years – *My Beautiful Laundrette*, *Trainspotting*, *Shallow Grave*, *Four Weddings and a Funeral*, *The Madness of King George*, *East is East* on so on. These were all productions with relatively modest budgets. In the late nineties the channel moved into more ambitious territory, doing deals with Warners and others to develop a film distribution business. More recently we have decided to return to our low-budget roots, but Channel 4 remains passionately committed to supporting the UK film industry, and to give it appropriate help to compete internationally.
13. Since 1993 the Channel 4 has stood on its own feet, selling its own advertising airtime. There were fears at the time that it might turn into just another commercial broadcaster. There were fears that direct competition for revenue would make the channel less adventurous, and more concerned with its commercial than its editorial agenda. Happily these concerns were unfounded. Without shareholders, Channel 4 didn't need to maximise revenue at the cost of the programme remit. And the freedom to innovate brought its own rewards: Channel 4 not only achieved a viable share of viewing, its new approach also attracted a high proportion of younger ABC 1, lighter viewers, the very people advertisers wanted most to reach.
14. Even in today's more competitive environment, Channel 4 still attracts 10% of UK viewing. In multi-channel homes, where competition is at its most intense, Channel 4 has lost much less of its share of viewing than

ITV or BBC-1 But the headline figures hide an important characteristic of our audience: it is both younger and more up-market than the population as a whole, with well over 13% of the 16-34 year age group in peaktime. Among younger viewers our share has increased slightly, even in those demanding multi-channel homes.

15. So Channel 4 has proved that it can be different and can also pay its own way. Its very success brought other, unexpected problems. The great political mantra of the eighties and nineties was privatisation, and from time to time it was suggested that the channel could safely be privatised. Politicians on the right were irked by the state ownership of a commercially successful television channel, and preferred the ideological purity of private ownership. They also, no doubt, relished the prospect of the imagined benefit to Treasury coffers, as much as £3 billion, some thought.
16. Twice the option was considered by Conservative Governments. Twice it was rejected. And for very good reasons. Channel 4 works because it doesn't need to deliver profits. Of course it must be prudently and efficiently managed. But there is no pressure to maximise revenue at the expense of quality and diversity. There is instead a culture that seeks to return as much revenue as possible to viewers, by way of better and more challenging programmes.
17. Some of the proponents of privatisation argued that since Channel 4 was a commercial success, it would be unlikely that private owners would tamper with its output. If only life were so simple. At the first sign of falling revenues or profits, the knives would be out, cutting costs, and cancelling projects which carried too much risk. Step by step, there would be a slow but irreversible retreat from the ambitions of the remit, into the dull predictability of me-too television, with its safe formats and ratings-obsessed imperatives. Our regulator, the ITC, agreed that this process could not be prevented by force of law. Without its own editorial independence, no amount of regulation would stop the erosion of the remit of a privatised Channel 4. No Government watchdog could anticipate the innovative ideas that would be summarily rejected as too risky. No form of words could guarantee the character of Channel 4 News, with its serious and ambitious approach to the news agenda.
18. Happily those arguments prevailed. Channel 4 has retained its independence, and its hybrid role as a public service broadcaster fully funded by the commercial sector. But like all other broadcasting organisations, it lives in a rapidly changing world. In 1982 it was the newest of just four television channels in the UK. Cable and satellite

broadcasting had barely begun. Digital transmission was still science fiction. Today we operate in an environment of intense competition, with hundreds of channels available. As I have already mentioned, in multi-channel homes, viewing patterns have changed radically.

19. In many ways Channel 4 is ideally adapted to the challenges of these changes. The concept of innovation is one of its core cultural values. In programme terms it has always thrived by reinventing itself, by being one step ahead of everyone else. It has always tried to anticipate rather than follow audience tastes and interests. It has been light on its feet, a skill made easier by its lack of in-house production baggage, a relatively small staff of under 1000 people and an extensive network of contacts in the broad creative community.
20. The habit of taking risks is particularly fruitful when newcomers into the market feel constrained to copy existing formats. At present in the UK, the five main channels attract 80% of all viewing. The other 20% is fought over by more than 400 much smaller broadcasters, who are far too small to take risks. At the same time the growing consolidation of ownership, plus competitive pressure on revenues, is making even the bigger commercial broadcasters much more risk averse than they used to be. That is the key to Channel 4's continuing importance. With 10% of viewing it is big enough to matter and to make an impact. But, crucially, it retains the independence to maintain a high level of innovation. These factors continue to distinguish Channel 4 as a real alternative to its commercial competitors, old and new. It makes the unique hybrid model of Channel 4 as relevant an idea now as it was twenty years ago.
21. The proof of that is on the screen. New ideas continue to flow – *Big Brother*, a hugely original 'reality' show. A completely revitalised and imaginative approach to *Test Cricket*. A whole raft of agenda-setting current affairs programmes – *Behind the Veil*; *The Drug laws Don't Work*. New ways of presenting history: *The Edwardian Country House*; *Time Team*. Together with numerous innovative comedy slots – *Ali G*; *Graham Norton*, major dramas and even an opera on the death of Princess Diana. Creatively Channel 4 has remained on song, always looking for fresh approaches in co-operation with UK producers, and unashamedly to offer the best American drama and comedy – *West Wing*; *The Sopranos*; *Frazier*; and *Friends*.
22. But it's not just the programme output that must stay ahead of the pace of change. Channel 4 can only deliver to viewers if it is properly funded. With more broadcasting mouths to feed, even a highly distinctive broadcaster, with particular attractions for advertisers, cannot afford to

stand still. A few years ago the channel embarked on a strategy of diversification, to build carefully targeted new services with the potential to help support and sustain the core channel.

23. E4 and FilmFour are new services which build on the channel's strengths and viewer loyalties. E4 – entertainment-based – has achieved a remarkable 2% share in multi-channel homes this year, with advertising revenue well ahead of plan. We expect that it will break even in 2005. FilmFour continues Channel 4's close association with the cinema. It now has over 400,000 subscribers, and offers four different film channels. It has a strong identity, and even with the collapse of the ITV digital platform, it is still on course to break even.
24. I should also mention the success of our experiments with interactive television (especially in connection with the transmission of *Big Brother* on the main channel), and the steady growth of 4Learning, which carries our long-term commitment to educational broadcasting.
25. All this must, of course, be set against a commercial climate which is currently quite challenging. All commercial broadcasters in the UK are having a difficult time. From 2000 to 2001 total television advertising revenue fell by almost 10%. I'm glad to say that Channel 4 has suffered less than most (down 6% compared with 13% at ITV), and that the dark clouds are now starting to lift. But it may be some years before revenue returns to the peak of 2000, and we remain very conscious that we have to generate an adequate and appropriate level of income if we are to continue to fulfil our responsibilities and our ambitions. We will continue to use all our skills and efforts to that end.
26. And there's a second set of challenges in front of us. The climate in which we operate isn't just set by economic factors. As a creation of public policy, we are also crucially affected by the successive waves of legislation which bear upon the broadcasting industry. One senior BBC executive observed that broadcasters are beset by legislation like other people have mice! Currently the British Government is preparing a comprehensive overhaul of the regulation of all forms of electronic communications – telecomms as well as broadcasting – in a single piece of legislation.
27. The main thrust of the new proposals is to move to a regime of 'lighter touch regulation', with more decisions left to broadcasters themselves, rather than to the intervention of the regulator. That in itself is unexceptionable, but we are concerned by the consequences of one particular element of liberalisation. The Government is proposing to

remove the restriction that prevents the ownership of UK broadcasting licences by non-EEC companies. It is a proposal that would allow US ownership of British commercial broadcasters - incidentally without any requirement for a reciprocal removal of ownership constraints by the US Government.

- 28.** Channel 4 has deep concerns about this policy. Not because of scepticism about the argument that American owners would bring much needed 'investment' into British television – though I regard that contention as far from proven. No, our concern is that ownership of our commercial competitors by powerful global media companies would seriously distort the key markets in which we operate. We are especially concerned that such competitors, as the existing owners of popular American programmes, would withdraw them from the market and use them for their own exclusive benefit in the UK. We are also worried about the impact of huge, vertically-integrated media companies on the health of the independent production sector, and on the working of the market for advertising airtime.
- 29.** The US competition regime is a good deal tougher than ours, and used to handling these issues: we worry that UK regulators don't have similar powers and the experience. It's not competition we fear, but the danger of big players squeezing competition out of the vital markets in which we operate. I'd like to think that our competition authorities will be able to afford lawyers at least as good as those of the companies they're trying to regulate!
- 30.** We will therefore argue long and hard against changes made in the name of liberalisation that actually diminish fair competition for resources, for rights and for revenue. We must have fair markets in advertising, programme supply and production. This is not just a question of Channel 4's institutional interests. Indeed, Channel 4 is not the kind of enterprise that makes institutional interests its main priority. Channel 4 is concerned above all with its ability to discharge the responsibilities placed upon it. And it can only do that if the public interest that set those responsibilities, also maintains a fair competitive framework in which they can be achieved.
- 31.** The main purposes of Channel 4 twenty years ago were to enhance the diversity and quality of television programmes for British viewers, and to act as a catalyst for creativity of the British production sector. Those core purposes remain the same today. Together with the BBC, for which it provides creative competition across the board, Channel 4 represents a guarantee that British viewers will continue to access a substantial

volume of broadcasting output with is driven by editorial and not just commercial objectives.

32.In that sense Channel 4, the channel of change and sometimes revolution remains exactly where it was twenty years ago. Successive governments and Acts of Parliament have understood that the key to its success has been its is commercial and editorial independence, to which I would now add the necessity of a fair framework for competition. Channel 4 is not a huge broadcaster, and never will be. It was created by an imaginative piece of legislation. Intelligent legislation and regulation is needed now to ensure that its value to UK viewers and to the UK creative economy can be sustained for the future.

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