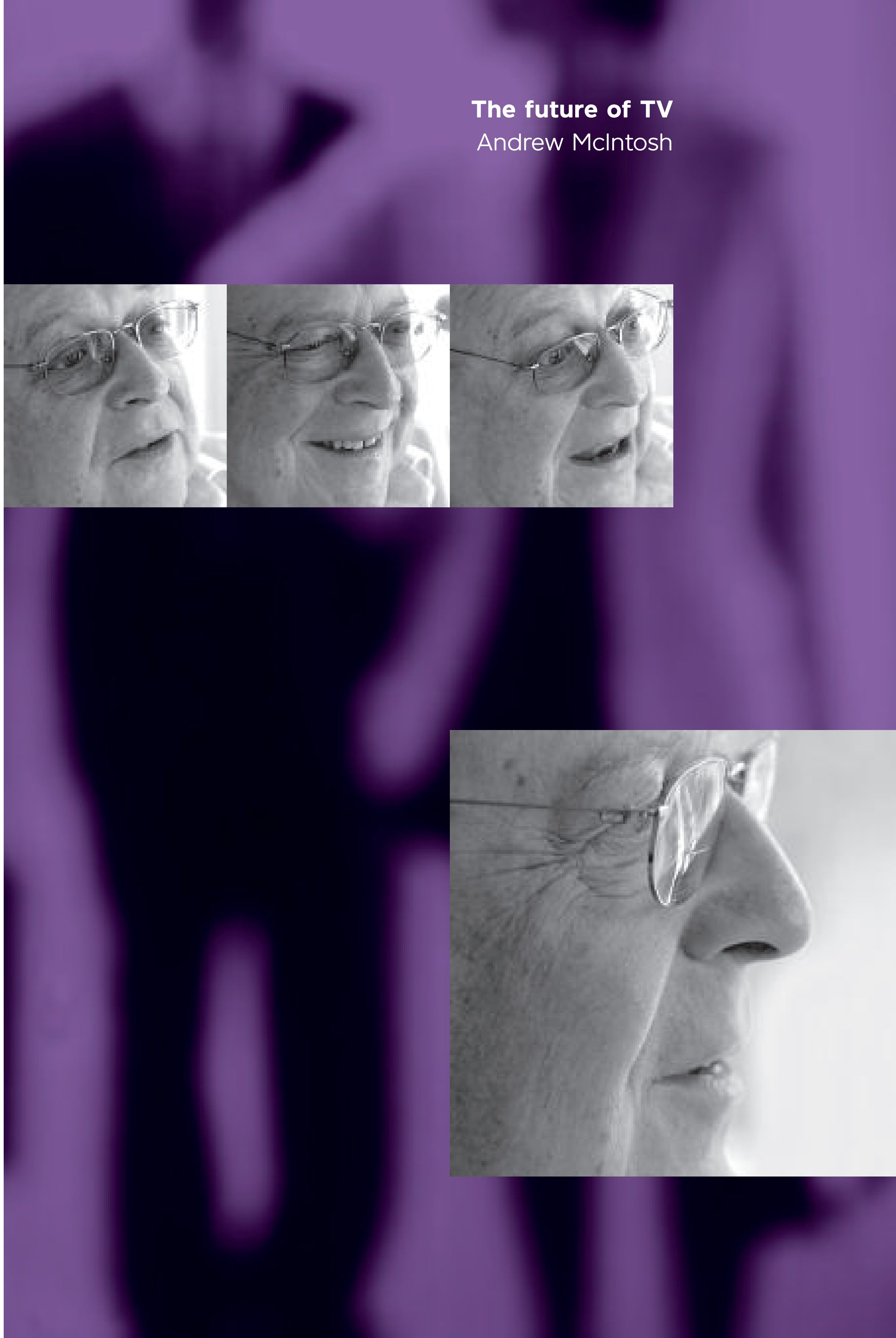
section four

360° view



The future of TV

Public service broadcasting is too important to us as citizens as well as consumers, for it to be limited to the BBC.

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More than a hundred years ago G. K. Chesterton's introductory remarks to his novel *The Napoleon of Notting Hill* described the addiction of the human race ('to which' he said 'so many of my readers belong') to the children's game of 'Cheat the Prophet'. 'The players listen very carefully and respectfully to all that the clever men have to say about what will happen in the next generation... They then go and do something else. That is all. For a race of simple tastes, however, it is great fun.'

So *pace* Chesterton: in ten years' time, and for the foreseeable future after that, people will be looking at moving pictures and listening to recorded sounds from devices with flat screens, in two dimensions.

Does that mean that TV as we know it will still exist in ten years or more from now? Not necessarily, and possibly not at all.

Although the quality and range of offerings has increased immeasurably, the way in which people look at moving pictures and listen to recorded sounds has changed very infrequently in the last 120 years:

1890s: black and white pictures on flat screens, no sound, on communal screens: film

1920s: recorded sound accompanying the black and white pictures, on communal screens

1930s: colour pictures, with sound, on communal screens

1950s: black and white pictures, with sound, at a fixed location in the home: TV

1960s: colour pictures, with sound, at a fixed location in the home

1970s: three-dimensional screens for colour pictures, with sound, on a limited number of communal screens

1970s: recordability of TV and films: video cassettes, followed by DVD

2000s: small colour pictures and short videos, with sound, in individual locations such as the rear of aircraft seats, or handheld, usually attached to mobile telephones

2000s: ability to pause live TV and watch what you want when you want it (PVRs). 4.1

But the fundamental relationship between few producers, film companies and broadcasters, and many viewers, has not changed. Moving pictures, whether cinema or TV, have not yet merged with publishing, computing or telecommunications, as had been widely predicted. Some content producers may in future wish to cut out the broadcaster/distributor middlemen and distribute directly through the Internet, but so far, the long-heralded 'information society', a single media market - let alone a society in which print is replaced by electronic media - has not happened.

This is not to say that there have not been many other important changes, or that more should not be expected. We can look at these in the areas of production, transmission and reception, viewer behaviour and the critical question of who pays and who makes money, as a basis for thinking about the future of TV and the policy issues arising.

Production

In most countries TV started as a national monopoly. As more analogue spectrum became available, a limited number of public and private competitors emerged and as digital spectrum became the norm in the first decade of the twenty-first century, the number of producers and channels increased at least 100-fold. The cost of launching a new channel, and finding a platform for it, has fallen dramatically.

In spite of an increase in producers and channels, production has continued on the basis of the few producing for the many, or as Andrew Graham and Gavyn Davies (*Broadcasting, Society. and Policy in the Multimedia Age,* 1997) put it, 'audiences are fragmented and yet ownership is concentrated'. And the first question we must ask is: can this continue? The answer will be found not in further changes in production, but in changes in transmission and reception, leading to changes in the ways people use TV - or rather in the ways they receive moving pictures and recorded sound, of which TV may be only a special case.

Transmission and reception

The most obvious change has already taken place for over 60 per cent of UK households: the availability of up to 500 digital channels instead of analogue channels you can count on one hand. Even without digital switch-over, further growth in access to digital can be expected to reach 80-90 per cent, constrained only by the cost of cable and satellite and the limitation of digital terrestrial coverage, before analogue switch-off, to 73 per cent of households. And the existence of three competing platforms, satellite, cable and terrestrial, with different and incompatible pricing systems, may also deter some potential switchers.

But the switch from analogue to digital, which is already government policy and will be complete by the end of 2012, is only the first part of the story.

Already a high proportion of communication which used to be synchronously interactive, using the same technology - the telephone - at each end, is now creeping into asynchronous mode, with pictures and sounds from broadcasters, using telecommunications technology. Ofcom's annual review of the communications market, published in July 2005, records that, for the first time, broadband connections, at 8.1 million homes, have outnumbered dial-up connections. Broadband at 0.5 or 1 megabyte is not capable of providing TV reception or recording with acceptable downloading speed, but upgrading to broadband at 8 megabytes is already available in the UK and 1 gigabyte is possible.

So the advance of broadband, which is market-driven, will take place alongside the government-driven switch from analogue to digital, and it is legitimate to ask why government should be involved at all. After all, the MPEG2 technology which is being used for digital switch-over is already middle-aged. It is possible to argue that decisions about technological change, such as digital switch-over, should be deferred until the next advance in technology is in place: broadcasters in France have been successfully urging such a policy.

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There are, however, four reasons why it is proper - indeed essential - for government to be involved, and to participate, with broadcasters, regulators, transmission companies and equipment manufacturers and retailers, in the large and complex project now being led by the umbrella implementation body known as Switchco.

First, spectrum allocation is and has always been the responsibility of governments and, where necessary, international organisations. For the reasons which Barry Cox set out clearly in 2004 in his essay in UKTV's earlier book *TV in 2014*, analogue broadcasting is very wasteful of spectrum. It is not physically possible to provide digital terrestrial services to the whole population (or the 98.5 per cent which now has access to analogue broadcasting, and was promised digital access by Chris Smith, then the Secretary of State, in 1999) before analogue is switched off. Market mechanisms alone will never secure the national coverage which is necessary for every citizen to have access, as a right, to public service broadcasting.

Second, the spectrum released by the analogue switch-off is a public good. It will become available for services of value to consumers, such as mobile TV and local TV services (perhaps supplanting regional services whose relevance is being questioned) or HDTV.

Third, digital transmission is not just better than analogue, with wider choice, better quality and the potential for interactivity, it is also a necessary precondition of further technical and quality advance, notably HDTV, real interactivity with a return path, and user control of timing, selection of images and screening out capability. It is essential that commercial interests should not capture and exploit these new technologies for their own commercial benefit, at the expense of the wider public interest.

Fourth, and following from these perhaps unpalatable facts, only government has a duty to protect the rights of consumers, who will, region by region, from 2008 to 2012, be deprived of their analogue access to broadcasting. They will get a lot in return, but when Chris Smith promised access in 1999, he also promised that switch-over would only happen when it was affordable.

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The arguments for proceeding with digital switch-over, and for government involvement in it, therefore, are powerful. They do not apply in the same way to broadband. Broadband (which in July 2005 accounted for only 0.1 per cent of TV reception) is dependent on many business, household and individual purchase decisions. These have to be market-led; and no one is deprived of anything they already have by adopting broadband.

However, there are sound economic and social reasons why government should encourage broadband, especially by ensuring that there is an adequate legislative and regulatory regime for it. Broadband can make a notable contribution to economic and social development, especially in deprived and rural areas. It could, for example, provide dedicated services, such as on-line health and security, to older people or people with disabilities. For this to happen, there will have to be a critical mass of suitable services and of relevant users connected to broadband; and government may have a legitimate role in supporting it.

Viewer behaviour

Availability of digital TV is only the beginning. The old channels have held their audience share reasonably well: 50 per cent of viewing in multi-channel homes is still of the five old channels, and many viewers have not changed their viewing habits to take full advantage of the range of choices available to them. For many digital viewers, the range of choice is bewildering rather than life-enhancing. There are many reasons for this, some of which can be expected to reduce over the next decade, including:

- broadcasting inertia - the tendency of broadcasters to commit most money and their best programmes to the original channels which are also available on analogue
- viewer inertia - the unwillingness or inability of viewers to try new channels, programmes or sources of information
- the inadequacy of programme guides
- the continuing existence of analogue sets in secondary locations in the home
- the failure of broadcasters to find what they call 'killer applications' for the degree of interactivity available from digital, in the absence of the fuller interactivity of broadband.

Alongside the growth of digital TV, the future growth of broadband and the introduction of computer technology to broadcasting are the many other related uses of moving pictures and sounds both for leisure and for economic activity. Computer games, playstations and communication via video phones already occupy a significant part of the time children and young people might otherwise spend in front of a TV set - or indeed in reading or sport. When the DVB-H versus DMB issue is resolved, mobile television can start to move forward. Distance learning (with the Open University 35 years old) and business communications have overlapped with broadcasting technologies for many years. On-line searching, with an increasingly accessible Internet, is already sharing content with broadcasters. Video-on-demand is offered by cable operators in some geographical locations. 4.1

As Naomi Sargant said at the Barbican conference at the conclusion of Information Technology year, in December 1982 (*PITCOM Information Technology & Public Policy*, Volume 1 Number 2): 'The question will not be which TV/Cable channel do I want to watch? It will be, what do I want to do with my time?'

Who pays? And who makes money?

People who buy books pay the whole cost of authorship, production and sales. People who buy magazines and newspapers pay the cover price, which is subsidised by advertising revenue. People who watch TV pay in a variety of ways, more or less directly related to the cost of the product - the programme - they are consuming.

At one extreme, in the UK, is the licence fee: ostensibly a payment under the Wireless Telegraphy Acts for the right to own a TV receiver in the home, but in fact a sum calculated by government to meet the costs of the BBC (which collects the licence fee), regardless of how much the licence fee payer actually watches or hears. It would, of course, be possible to fund the BBC in a way which is even more remote from viewership, by making it a charge on general taxation or the beneficiary of a hypothecated tax.

'For its part, Ofcom is correct to say that public service broadcasting cannot reach its full potential without a plurality of providers, and is therefore justified in raising the issue of whether, in the medium term at least, some more public funding should be available to meet the high costs of production of high quality programmes.'

At the other extreme, the price of pay-per-view TV is directly related to the individual programme required by the individual consumer, though the price is calculated to yield a profit deriving from a large number of consumers.

In between is a range of pricing systems. The earliest to emerge - and the basis since the beginning for the funding of radio and TV in the United States - are advertising and sponsorship, where the cost to the consumer is calculated on the collective propensity of all the viewers of a particular channel at a particular time to buy the products or services advertised. The individual consumer or household has no say, other than being influenced towards a purchase decision. More recent is the development of subscription TV, where the vendor offers access to a channel, or more normally a bundle of channels, for a monthly or annual fee.

In a TV market where revenues continue to grow (up 8.6 per cent to £10.1 billion in 2004) the main driver of growth in the last five years, as recorded by Ofcom, has been subscription, more to satellite than to cable, with TV shopping, interactive services and pay-per-view still making a very small contribution. As time-shift, on-demand services and PVR technologies allow viewers to bypass advertising, and as Internet advertising increases, advertisers will have to develop new strategies, such as product placement, to maintain their position.

Public service broadcasting

In some ways it would be nice to think that market mechanisms should rule, that viewers should get what they pay for and pay only for what they want. But the economics of broadcasting are such that this would not be a proper objective of public policy, and would disadvantage a high proportion of consumers, let alone citizens. Graham and Davies argue that the new technology actually creates pressures to have a broadcasting industry which is not competitive in economists' terms.

As Graham and Davies demonstrate, broadcasting has high fixed costs - the initial cost of production of good-quality TV is substantial - and low marginal costs, being cheap to reproduce and transmit to a large number of people. These are the characteristics of a natural monopoly, where economies of scale (getting to a large number of viewers) can only be achieved with concentrated ownership. Spectrum scarcity has now been supplanted by product famine, or at least famine of high-quality product.

In these conditions it is the viewer who would lose out if there were no public intervention in the funding of TV. Government was justified in the Green Paper on the BBC Charter in proposing the continuation of the licence fee for the next ten-year charter period, but at the same time requiring that future funding should be re-examined in the middle of the charter period.

Ofcom is correct to say that public service broadcasting cannot reach its full potential without a plurality of providers, and is therefore justified in asking whether, in the medium term at least, more public funding should be available to meet the high costs of producing good programmes. It is true that Ofcom's concept of a public service provider is not yet fully worked out, notably in that it fails to address the issue of how and where funded programmes should be scheduled. 4.1

But public service broadcasting is too important to us as citizens as well as consumers for it to be limited to the BBC, whose market share (despite its valiant efforts to lead in digital markets and its intention to develop broadband on-demand access for its programming) must continue to decline as 100 per cent of households have access to digital, and eventually to broadband. The combination of public and private provision which has grown up over the years in the UK has been remarkably successful in creating and sustaining high standards of broadcasting in all genres. Though it has been led by the BBC, it has been supported by commercial broadcasters, including those channels which are not licensed in the UK.

Debate on public service broadcasting has matured significantly in the past few years. The Puttnam pre-legislative scrutiny committee looking at the draft Communications Bill in 2002 brought the issues vividly to public attention. The Act itself, in 2003, included the most extensive and demanding definition of public service broadcasting to date, and stressed the obligations of broadcasters to both citizens and consumers. The Act made commercial broadcasters responsible to Ofcom for maintaining public service broadcasting standards at differing levels. The BBC is largely self-regulated under the Act, but has some obligations to the regulator.

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Ofcom itself has issued three documents reviewing public service broadcasting. An early aberration, in which Ofcom attempted to collapse the concepts of citizens and consumers into a single 'citizen/consumer' has fortunately been abandoned, though the reviews still contain worrying attempts to water down the definitions in the Act.

The existence of the BBC has been crucial to the existence of a successful broadcasting industry in the UK, private as well as public. But society's need for public service broadcasting that meets the needs of citizens and consumers for trustworthy information, education and high-quality television in all genres will continue to require public intervention. And the new technologies which have been discussed here reinforce, rather than diminish, the need for public intervention in support of public service broadcasting.

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