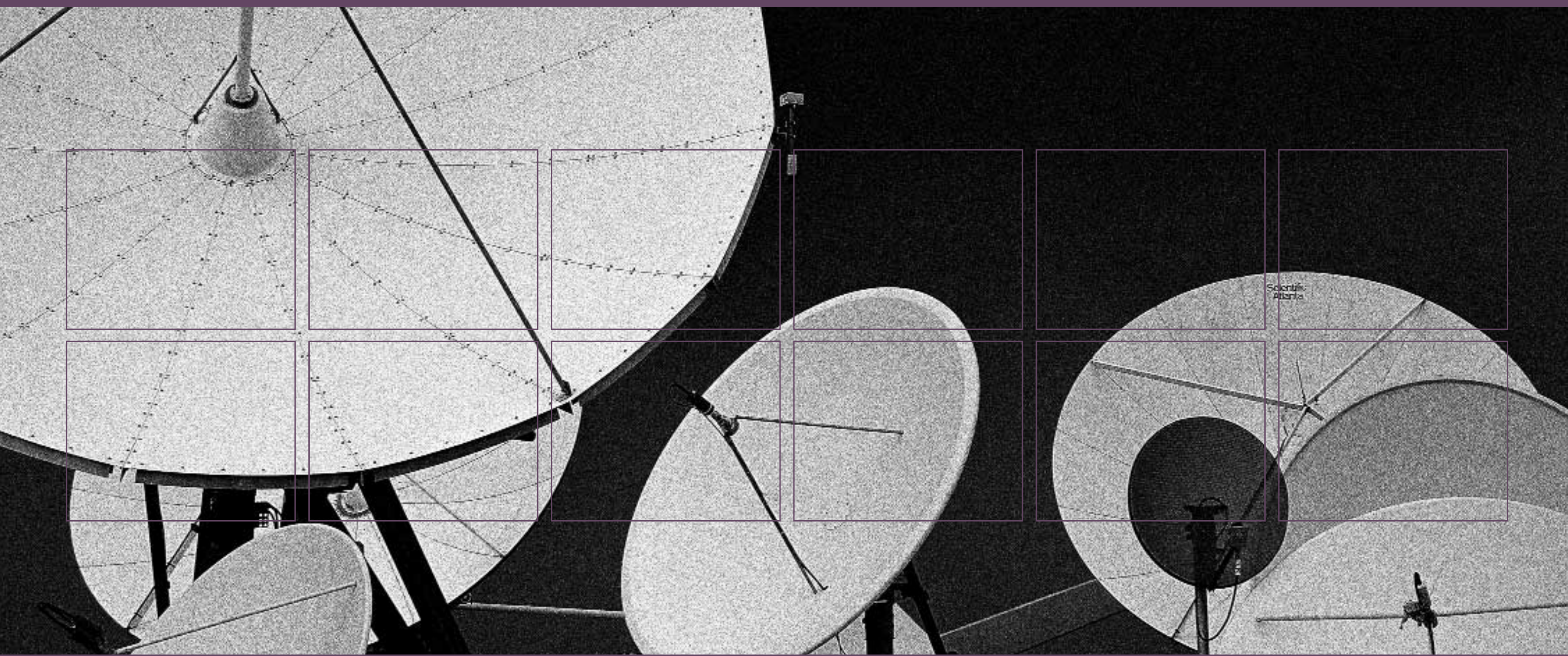
Department for Culture, Media and Sport
Creative Industries Programme

creative industries
UK television exports inquiry

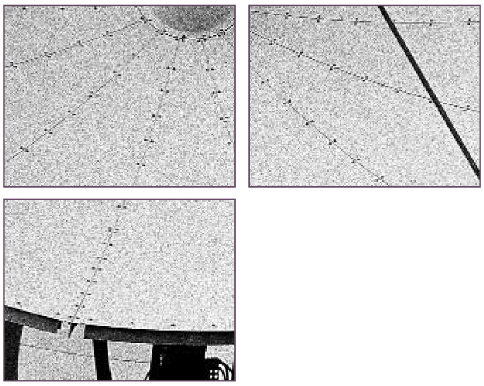
The Report of the Creative Industries Task Force Inquiry into Television Exports



Department for Culture, Media and Sport
Creative Industries Programme

creative industries
UK television exports inquiry

The Report of the Creative Industries Task Force Inquiry into Television Exports



Contents

FOREWORD BY THE SECRETARY OF STATE FOR CULTURE, MEDIA AND SPORT

Earlier this year, my Department published the David Graham Associates report *Building a Global Audience*. That report – produced in partnership with the UK television industry – stimulated a great deal of debate about how the UK goes about marketing its television product. From that debate, it is clear to me that our industry deserves credit for its many successes in overseas markets. But we also know that the UK could do still better in exporting programmes and programme formats while continuing to provide a high quality service to the domestic audience.

In my foreword to *Building a Global Audience*, I stressed my commitment to seeing that Government works in partnership with the industry to improve the UK's export performance. To that end, I asked the Creative Industries Task Force to take forward the provisional recommendations made by David Graham's team, as summarised in the annex to this report. The members of the Inquiry have been drawn from all parts of the UK television industry, and I make no apology for having given them a challenging remit.

I asked the Inquiry's three sub groups to consider what the industry and Government can together do to improve our performance in three key areas:

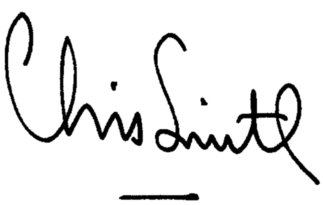
the Overseas Markets Group considered how our export efforts might be better supported;

the Investment Group looked at barriers to investment; and

the Right Product Group looked at the nature of the UK's television product.

I am very pleased to publish the three sub groups' reports as they were presented to the Inquiry. I am confident that the sensible and realistic proposals made will not disappoint those interested in the future health of our television industry. I am very glad to note that one of the key recommendations – a stronger role for the British Television Distributors Association – has already been implemented, and I invite the industry to take forward the other proposals made. I shall be considering the recommendations for Government in detail over the next few months, and I expect to publish my Department's response in the New Year.

I am grateful to all of those who contributed to the Inquiry, not only for their expertise, but for their commitment to finalising this report in such good time.



KEY RECOMMENDATIONS

The detailed recommendations of the Inquiry's three sub groups are set out with each report. The key recommendations for Government and the UK television industry are as follows:

a stronger, more effective and better funded British Television Distributors Association;

more consistent support for UK export efforts from British Trade International;

an expanded role for the British Film Office in Los Angeles, supporting UK television export efforts in the US market;

a more flexible tax incentive structure to benefit co-production activity;

the production of regular and accurate Government statistics for UK television imports and exports;

a rights fund to encourage UK animation production;

some relaxation of the rules governing programme-related merchandising;

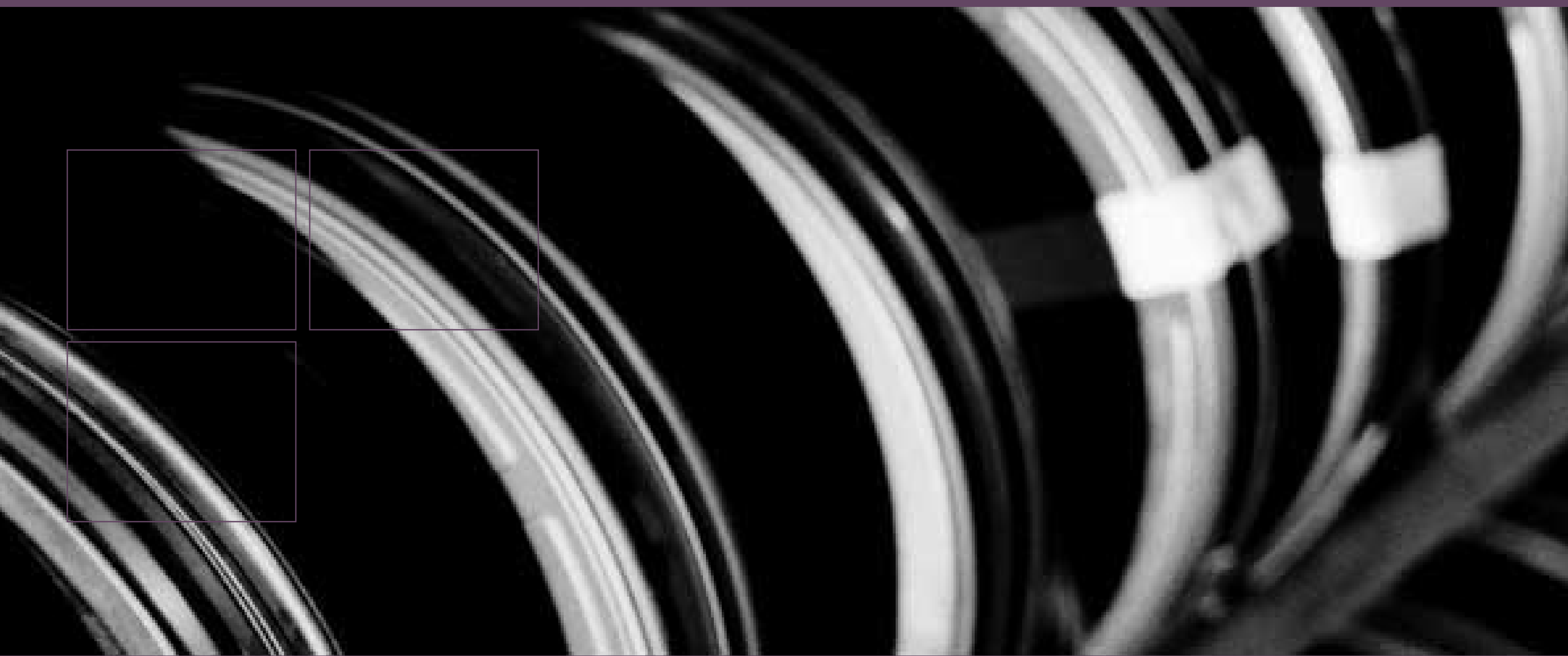
a UK producers' training scheme;

an annual awards event for the best of UK exported programmes;

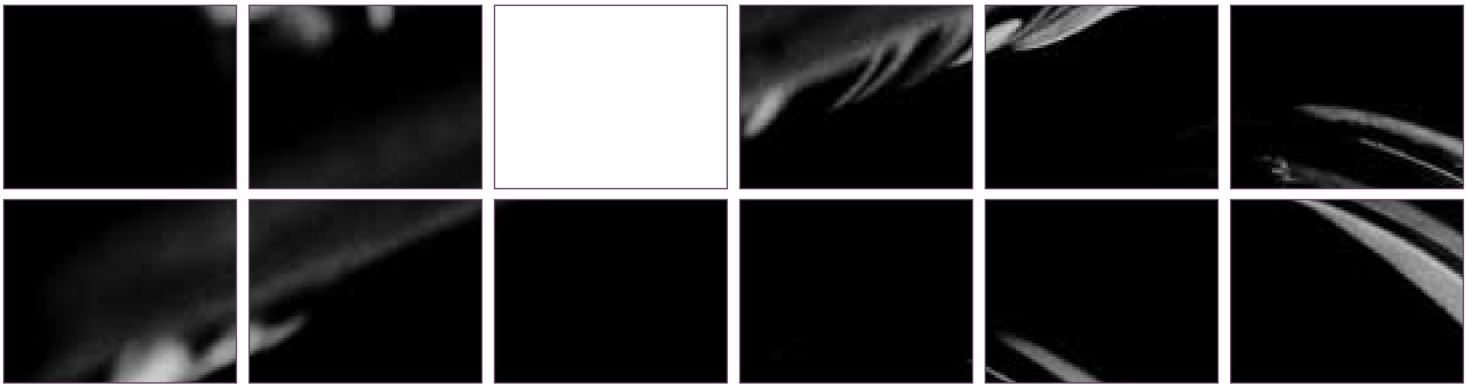
a coherent Government strategy on rights developments and on international law relating to talent rights; and

better funding for productions designed for the international market.

chapter 1
the report of the overseas markets group



Contents



1. CHAIRMAN'S INTRODUCTION BY GRAHAM BENSON

The Overseas Markets Group debated the key agenda items in a businesslike atmosphere of determination to deliver achievable targets to assist and inform the publication of the main TV Exports Inquiry report. The Chairman warmly thanks the Group members – including, of course, those co-opted – for their time and expertise. All the DCMS officials are also thanked.

There now follows our detailed response to the questions specifically raised. The proposals are offered with the unanimous support of the Group.

2. EXECUTIVE SUMMARY

The Overseas Markets Group recommends:

the production of regular and accurate Government statistics for television exports;

a new research role for the British Television Distributors Association (BTDA) in identifying opportunities in new overseas markets;

a stronger, more effective and better funded BTDA with clearly defined research and lobbying roles;

more consistent, longer term and better-targeted Government support for UK television export efforts, particularly in the showcasing of British television productions at international trade fairs;

that DCMS, British Trade International and the British Council should work more closely with the industry in promoting exports; and

that, though our primary call for funding is for the BTDA, the Government and the UK television industry should seriously consider joint funding for the British Film Office in Los Angeles to allow it to offer increased support to UK television exporters in the US market.

3. TERMS OF REFERENCE AND THE GROUP'S APPROACH

3.1 At the meeting of the main Inquiry group on 2 June, the Overseas Markets Group was asked to consider:

which markets UK producers and distributors should be targeting;

trade representation – whether an effective trade body for UK distributors would be desirable and, if so, what role that body should play in promoting exports; and

Government support mechanisms for UK television exports, including a comparison with levels of state support in competitor countries.

3.2 In addressing these issues, we took as our starting point the main conclusion of *Building a Global Audience* – that the UK's performance in exporting television programmes can and should be improved. A number of the responses to that report argued that efforts to improve exports are unnecessary as the UK has a thriving production industry which broadly meets the needs of the domestic audience. We do not agree. Although the needs of the UK audience must come first, high quality television programmes shown abroad can offer a positive portrayal of life in the UK, and a proportion of export revenues may be re-invested in additional productions for our domestic and international audiences and may enhance the budgets of more expensive projects.

4. EXPORT STATISTICS AND TRADE INTELLIGENCE

4.1 A starting point for the Inquiry is to consider the current health of UK television exports and a way of measuring future success. In this regard, the most fundamental statistics are the overall figures for international receipts from and payments for the sale of television programmes and services.

4.2 The Office for National Statistics (ONS) publishes these figures annually as 'Overseas Transactions of the Film and Television Industry' (FTV). Using a sample of television companies and standard statistical methodology to extrapolate the total trade figures, the FTV survey has produced the following results for recent years (in £million):

	1993	1994	1995	1996	1997
RECEIPTS	181	255	245	234	323
PAYMENTS	268	317	400	516	595
BALANCE (TRADE DEFICIT)	(87)	(62)	(155)	(282)	(272)

4.3 These figures must be treated with caution for two reasons:

they relate to transactions by film and television companies rather than the industry as a whole (ie sales and purchases of television programmes and formats by non-television companies are not included), and

they include transactions other than those relating to the trade in finished television programmes and programme formats. For instance, they may include some transactions relating to the use of transmission services such as satellite feeds (the inclusion of such transactions is also believed to have confused the ONS's import figures). By way of illustration, the figures suggest a sizeable trade deficit with Italy over recent years, which may be explained by British companies' use of Italian facilities to cover events in the former Yugoslavia.

In addition, it is not possible to extract historical export data for individual countries from the ONS figures because of changes in the methods by which data is collected.

4.4 ONS also carries out a wider survey of the overseas transactions of UK service companies (the OTIS survey). OTIS takes account of some further television transactions by companies that do not come into the FTV survey. DCMS calculations combining the two surveys have produced some very different figures for 1997 (in £million):

RECEIPTS	595
PAYMENTS	778
BALANCE (TRADE DEFICIT)	(183)

Although we are glad to note this apparent improvement in the UK's trade position, we find the difference of £89 million between these DCMS figures and the FTV survey worrying.

4.5 The ONS figures are based on television exports by value. *Building a Global Audience* adopted a different approach in examining the relative performance of UK television exports against key competitors in twelve main markets. The estimated market shares were calculated on the number of broadcast hours, rather than the value of imports. While this was clearly a useful exercise in its own terms, considerable additional research would be required to convert this data into market share by value. This would be further complicated as producers and distributors are often (and understandably) reluctant to disclose price information. Extrapolation from average programme prices by genre may also produce misleading results as the amounts paid in export markets vary widely. While high prices are paid in certain territories for major international hits, in the vast majority of territories even those few programmes with true international appeal are sold for relatively low fixed prices.

4.6 **Our first observation is therefore that robust and detailed official figures are needed for UK television exports.** We note that DCMS is presently discussing the necessary methodology with the ONS and we hope that the official figures will in future be sufficiently reliable to form both a guide for British distributors in overseas markets and a reliable basis for Government policy in this area. As well as relying on improved official figures, **we believe that there is scope for the industry to improve its own export intelligence.** We recommend that, as part of its proposed new role (see below), the BTDA should obtain details of exports from its members annually. This proposal has, in fact, already been put into effect by the BTDA, which has carried out its first survey this summer.

5. TARGET MARKETS

5.1 We broadly agree with the analysis of the UK's export performance in key overseas markets set out in *Building a Global Audience*. The report's overall conclusions are familiar to all members of the Inquiry and to the industry. They are not repeated here.

5.2 We considered the case for producing a detailed matrix outlining the UK's export performance as part of this report. Although such a matrix could be produced at this time, we do not believe that it would be of much use in formulating our recommendations. In the main, distributors are already aware of general developments in the territories in which they wish to sell and, in any event, international markets are always changing. A matrix would therefore serve only as a snapshot and would be of limited use in formulating policy.

5.3 Rather than carrying out our own survey, then, **we propose that the distribution sector should itself pool intelligence on overseas markets.** This intelligence should go beyond bare statistics. It is not enough for the industry to be aware that a given overseas market is a difficult one. It is important to know why that market is presenting problems. In many cases the reason for poor export performance could well be the nature of the UK television product (which is not part of this sub groups remit). That may not, though, be the whole story. Pricing issues, preferred formats and structural change in indigenous broadcasting industries may also affect the export of UK programmes at any given time. We believe that there is a good case to be made for better communication between producers and distributors. We therefore propose that all BTDA members should be asked to indicate which three markets are presently giving them most problems, and which three new markets they see as offering particular opportunities for UK exploitation (we speculate that at the present time Eastern Europe and Latin America will come into this category). This has already been done on the questionnaire recently sent to BTDA members and we recommend that the BTDA should make this an annual process.

6. THE BRITISH TELEVISION DISTRIBUTORS ASSOCIATION (BTDA)

6.1 We believe that there is a clear case for a strong and well-funded body to represent the interests of the television distribution industry. The BTDA is the ideal body to assume this role. We have already outlined a number of specific measures that the industry may itself implement through the BTDA. Our proposed role for the Association, though, is a wider one. **We recommend that the BTDA should now become an effective representative body for all UK television distribution companies, adequately funded (in the long term), possibly by levy on member companies and supporting financing.**

6.2 It is essential that the BTDA should have a clear remit at the outset. We have noted the problems of the US Motion Pictures Association, which, though well-funded and possessing a high profile, is still agonising over its role in the American television industry. We propose that the BTDA's primary role should be lobbying and research – particularly export-related. However, we support the BTDA's proposal to offer some member services as outlined at paragraph 6.7 below.

6.3 At present, the BTDA has no full-time staff and is effectively run from the offices of the Producers Alliance for Cinema and Television (PACT). Following its re-launch late last year, the BTDA now has 22 members:

BBC Worldwide
Carlton International Media
Channel Four International
Chrysalis Visual Entertainment
CTVC
GMG Endemol Entertainment plc
Granada Media
High Point Films & Television
HIT Entertainment plc
ITEL
Jane Balfour Films Ltd
London Films
Mayfair Television Entertainment
Minotaur International Ltd
NBD Entertainment Ltd
Pearson Television
RDF Television
S4C International
Southern Star Primetime
Target Distribution
TVF
X-Dream International.

6.4 The BTDA has itself consulted its members and discussed its future role at Board meetings while the Overseas Markets Group has been considering its recommendations, and our proposals are informed by the results of these discussions. We recommend that the BTDA should consider appointing PACT to continue managing its core administration. The BTDA does not envisage appointing any full-time staff. We agree that resources are better spent elsewhere and that the BTDA's management and direction should come from an annually elected Board.

6.5 We recognise that the BTDA's resources will always be limited. But to make the sort of progress that we believe to be possible in supplying the level and scope of support that the industry needs, some increase is needed. In considering the options for funding the BTDA, we have considered a selection of its overseas counterparts, as there are precedents for full or partial Government funding. For example, the French distributors' association receives the clear majority of its funding from French Government sources. However, although we call on Government to consider funding the BTDA on a continuing basis, we recognise that Government is likely to provide only start-up funding for the new body on a 'matching funds' basis. Given that, **we believe that some form of levy on member companies is the best option for funding in the long term.**

6.6 Continuing funding will be needed, and a flat-rate membership fee would not suffice for this as there is a maximum of only 40 potential members (and realistically the BTDA could expect a maximum membership of 30 in the short term). A levy is therefore the most realistic option, and we welcome the BTDA's proposed new voluntary levy to raise up to £300,000 over the next three years. As most members are small to medium size firms, we recognise that the burden of any levy may fall disproportionally on the major member companies. We would hope that these companies would accept this burden in recognition of the benefits which we feel sure that a revitalised BTDA would bring to the industry as a whole.

6.7 The Overseas Markets Group supports the following specific BTDA recommendations. The BTDA proposes to:

assist in the Government's overhaul of the official statistics for television imports and exports to provide an accurate database for tracking the industry's performance and the success of the BTDA's proposed higher profile;

work with Government in co-ordinating the presence of UK distributors at overseas sales markets and festivals. The BTDA should work closely with PACT, which should continue to act as industry sponsor for the British Trade International subvention schemes. In addition, the BTDA should help to create a generic marketing campaign (including a website linked to individual distributors' websites) and should investigate the communal digital delivery of programmes to buyers;

host a formal meeting with all UK commissioning editors and directors of programmes, both to improve their understanding of the needs of the international market and to outline the financial benefits of the successful international exploitation of UK programming;

organise a major one-day conference in association with PACT as the start of a major initiative to improve co-operation between producers and distributors, to be followed by a series of seminars and workshops;

work with the industry's National Training Organisation Skillset to ensure that training provision is made for the skills needed in the television distribution sector, and to produce a guide to careers in distribution;

develop a regular dialogue with the Producers Industrial Relations Service (PIRS), the BBC and other bodies responsible for negotiating with talent unions to encourage agreements that do not hinder export potential;

open discussions with the American Film Marketing Association (AFMA) to access its credit reference service with a view to reducing the risk of bad debt to member companies;

establish relationships with its European counterparts and ensure that the voice of the UK distribution sector is heard within the European Community; and

work towards establishing common forms of agreements governing sales and distribution.

6.8 This is an ambitious programme which will need energy, time and, in some instances, cash. We expect that the voluntary levy we propose will provide some of this. However, if the BTDA is to succeed in increasing overseas sales it will need additional support in cash and kind. **We therefore call on the Government to consider the provision of further start-up funding for the BTDA in addition to the proposed voluntary levy.**

6.9 The Inquiry's Investment Group proposes a regular forum between producers and distributors. We suggest that the BTDA, re-constituted as outlined above, could take on that role. We also note the Right Product Group's proposal for a mechanism to support annual awards for television exports. We endorse that proposal (though that mechanism should not necessarily be the BTDA).

7. GOVERNMENT SUPPORT FOR UK EXPORT EFFORTS

7.1 We have considered the level of Government support for UK television exports in some detail and we make recommendations below. Before outlining these proposals, we set out what we consider to be the most important international trade fairs and briefly examine state support for exports in certain overseas countries.

7.2 Trade Events

We consider that attendance at international television trade events is vital for export success. Though held in national territories, these events are all now international in scope. Our discussions with industry figures are confirmed by a recent poll conducted by *Video Age* magazine. A number of executives from a random selection of world television companies were asked to rank the major markets in order of importance to them and their businesses. The top seven markets among international (non-US) executives were:

1. MIPTV
2. MIPCOM
3. NATPE
4. LA Screenings
5. Monte Carlo
6. MIFED
7. AFM.

7.3 These markets are important because of the number, variety and quality of their participants. They stimulate the sale of UK programmes and formats as well as playing a role in the pre-financing of co-production projects. Further details of the top three markets which dominate the survey are given below:

MIPTV (International Television Programme Market): Held in April in Cannes, this is an event characterised by the range and diversity of its international representation. Important for the sale and purchase of rights, co-productions, financing, networking, corporate consolidation, cross-border investments and forecasting of trends. MIPTV is preceded by MIPDOC, a series of screenings of documentary programmes.

MIPCOM (International Film and Programme Market for TV, Video, Cable and Satellite): Also held in Cannes (in October), MIPCOM has become the indispensable counterpart to MIPTV, covering the same activities and business but for a wider range of products. MIPCOM is preceded by MIPCOM Junior, a series of screenings of children's and youth programmes.

NATPE (National Association of Television Program Executives): Held in January in New Orleans, NATPE is the largest market for American television programming. An estimated 80% of participants are American, representing all sectors of the US audiovisual industry – from the major broadcast networks, cable companies and cable networks to independent stations, and from studios to independent producers and syndicators. In the last 4-5 years, NATPE has also become a key international market place where many co-productions originate.

NATPE has extended its ambit to include funding organisations, telephone companies, advertising agents, film boards and companies involved in the area of new media.

7.4 We consider that the following events are also worthy of support under the SESA scheme, described at paragraph 7.8 below (in descending order of importance):

DISCOP, the Southern African Film & TV Market, MIPASIA, the American Film Market, and MIFED (though the last two are almost exclusively film markets).

7.5 It is also recommended that continued mission support from British Trade International should be given long term to the Toronto International Film Festival and to the Banff International Television Festival (these two vital industry events are not supported under the SESA scheme).

7.6 Export Support in Overseas Countries

In the following descriptions, tax incentives and other forms of state subsidy which are not specifically aimed at promoting exports are excluded. The Investment Group's report includes a detailed analysis of tax breaks available overseas.

Australia: no state assistance for attendance at trade fairs (state support is targeted at programmes with high levels of Australian content for both domestic and export markets).

Canada: the state-sponsored body Telefilm Canada has a marketing assistance fund of approximately CAN$2 million pa. Telefilm takes stands at MIPTV, MIPCOM, MILIA, MIP and NATPE, and costs are shared with participating broadcasters. Telefilm also assists companies with the costs of advertisements in international publications and with special (repayable) marketing loans.

France: TV France International takes stands at all of the major international television markets, and runs a French pavilion at NATPE. It also produces export statistics for the industry and holds a database of co-production opportunities. TV France is funded to the tune of FFr10 million pa by the Centre National de la Cinematographie (CNC) and the French Ministry of Foreign Affairs. The CNC offers subventions for original French programming and is funded by a levy of 5.5% on broadcasters' profits.

Ireland: the state agency Enterprise Ireland takes a stand at MIPCOM every year (though this is being switched to NATPE in 2000), paying 50% of the cost. Irish broadcasters wishing to be represented on the stand pay IR£2000 each. The scheme is thought to be under-used by Irish producers, many of whom travel separately to the event. There is limited assistance available for production companies' attendance at other events (50% of travel costs are refunded).

USA: no assistance offered (all US Government assistance is for the public service networks).

7.7 The level of support offered in the UK (as described below) may be said to be in the middle range of this limited international sample. Before commenting on the present level of support offered by British Trade International, we note the extensive support for attendance at trade events available in Canada and France.

7.8 Subventions in the UK

Government subventions for attendance at trade events are channelled through the SESA Scheme (Support for Exhibitions and Seminars). SESA is a standard scheme which applies to exporters across the economy. It is operated by British Trade International through relevant sponsors, which are usually trade associations. PACT is, and should continue to be, the sponsor for the film and television industry. Each year British Trade International invites bids from sponsors for support for various trade fairs. Under SESA, PACT has been successful in obtaining support for attendance at NATPE, MIPTV, MIPCOM, DISCOP (held annually in Budapest and aimed predominantly at the Eastern European market) and MIPASIA (held every Autumn in the Far East). It has also bid to attend the World Airline Entertainment trade fair without success. PACT has also obtained funding in previous years for an outward mission to the Banff Television Festival in Canada, where a number of co-production deals have been agreed.

7.9 Changes have been made recently to the subvention scheme, and support for television exports in 1999 amounts to less than 60% of the support available last year. The result is that, although British Trade International has this year offered support for NATPE, MIPTV and DISCOP, support for MIPCOM has been withdrawn and MIPASIA is no longer supported. The table overleaf shows the total subventions paid in the calendar year to December 1998 and estimates of the subventions available for 1999.

EVENT	SUBVENTIONS PAID IN 1998 (£)	ESTIMATED 1999 SUBVENTIONS (£)
NATPE (USA)	71,382	126,150*
MIPTV (EUROPE)	60,656	35,000
DISCOP (E. EUROPE)	16,812	11,000
MIP COM (EUROPE)	90,588	Not Supported
MIP ASIA	50,403	Not Supported
TOTAL	289,841	172,150

7.10 We regard this fall in levels of support as an extremely unwelcome development. **The Government should be increasing its financial support for export efforts, and at the very least subventions should remain at the 1998 level.** We believe that export efforts should be funded in a consistent, longer term manner. At present, subvention applications are dealt with on an ad hoc basis with the involvement of British Trade International country desks. Ideally, the Government would bring forward a subvention scheme tailored to the specific needs of television exporters. If this is not possible, **we recommend that DCMS, PACT and the BTDA should liaise closely with British Trade International in co-ordinating Government support for television export efforts.**

8. EXPORT SUPPORT – FURTHER RECOMMENDATIONS

We make three further general recommendations on Government support. In the main, these are self-explanatory:

UK Government Ministers should continue to support the efforts of exporters at suitable major trade fairs;

DCMS and British Trade International should work more closely with the British Council in promoting UK television exports. The British Council's network of 230 offices and teaching centres in 109 countries is a resource which could profitably be exploited in the promotion of UK television exports. DCMS, British Trade International and the BTDA (reconstituted as described above) should liaise closely with the Council in arranging trade receptions and events in target markets;

DCMS is invited to consider funding further research into export markets, perhaps by seconding a suitable researcher to the BTDA.

9. THE BRITISH FILM OFFICE IN LOS ANGELES

9.1 We have consulted the British Film Office in Los Angeles (BFO). We believe that the BFO has a valid role to play in promoting British television exports in the important US market. We note here that the UK's 35% share of US imports is a high proportion of a very limited total. There is clear scope for improvement in the UK's performance in the American market (and we welcome the recent launch of GB Productions, a joint venture between BBC Worldwide and Granada designed to sell British comedy and drama formats to US networks).

* Actual outturn. The size of the grant for 1999 reflects the fact that more UK distributors are exhibiting at NATPE.

9.2 The BFO is funded by 11 UK bodies (including DCMS, British Trade International, the British Council and PACT). In its first two years it has concentrated on promoting the UK's cinema industry. In the process, it has built up a network of relationships with Hollywood studios. The BFO is now happy to put its contacts and expertise at the service of UK television exporters, and will commit itself to greater involvement in the television sector in its forthcoming 5 year business plan.

9.3 To date, the BFO has worked with PACT in increasing the number of UK companies represented at NATPE (partly as a result, 72 British firms attended NATPE last year). It has organised a group visit of American film executives to the UK and would be prepared to offer its expertise in taking forward a similar initiative for the television industry if called upon. More generally, the BFO is confident that, due to its position in the heart of the US audiovisual industry it could offer a valuable service in helping to place UK programmes and formats on the growing number of US cable channels.

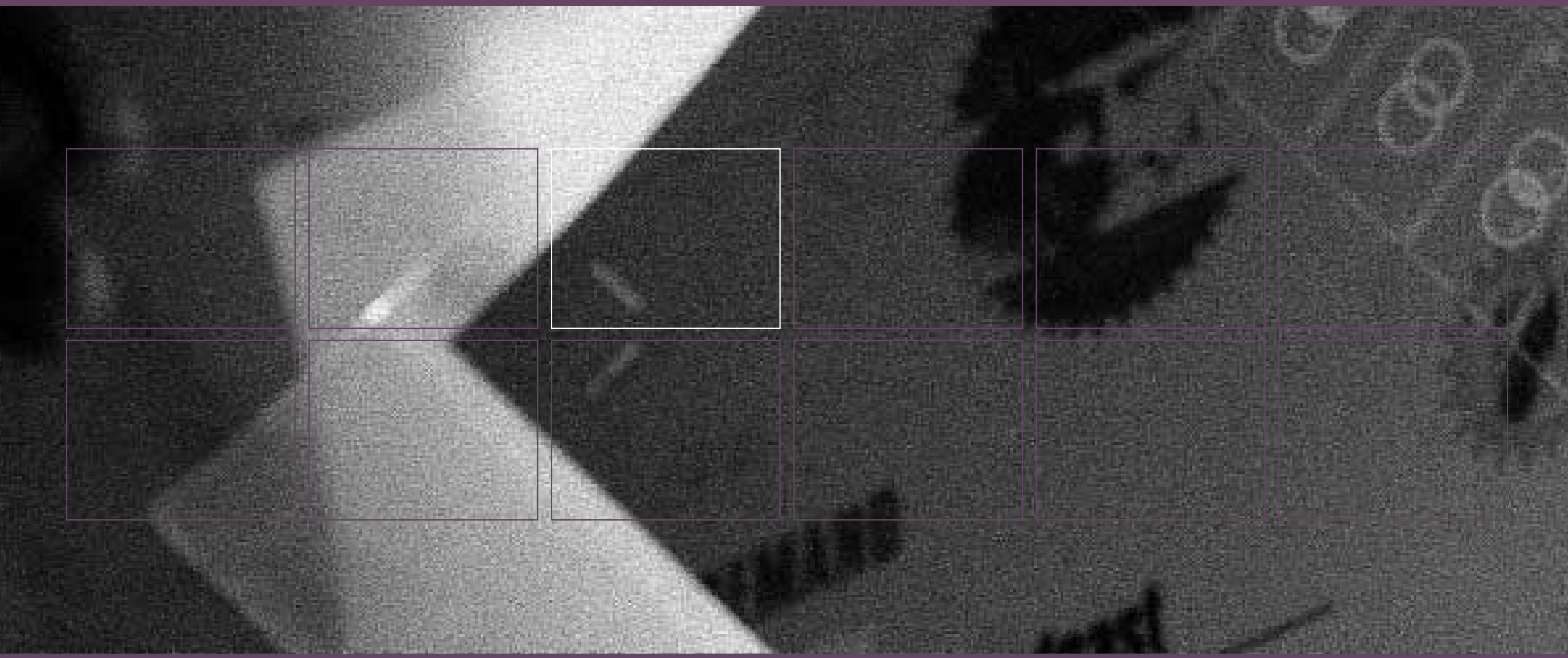
9.4 Such further work will inevitably involve a higher level of funding – not least in employing a television specialist at the Los Angeles Office. **We recommend that the Government should consider increasing the level of the BFO's funding. If the public bodies which presently fund the Office are unable to offer further support, we believe that funding should be sought from the UK television industry.**

10. GROUP MEMBERS

The members of the Overseas Markets Group were as follows:
Graham Benson (Chairman)
Charles Caminada
Rupert Dilnott-Cooper
Leslie Hill
Paul Howson
Kenneth Newnham, Maureen Beresford (British Trade International – observers).

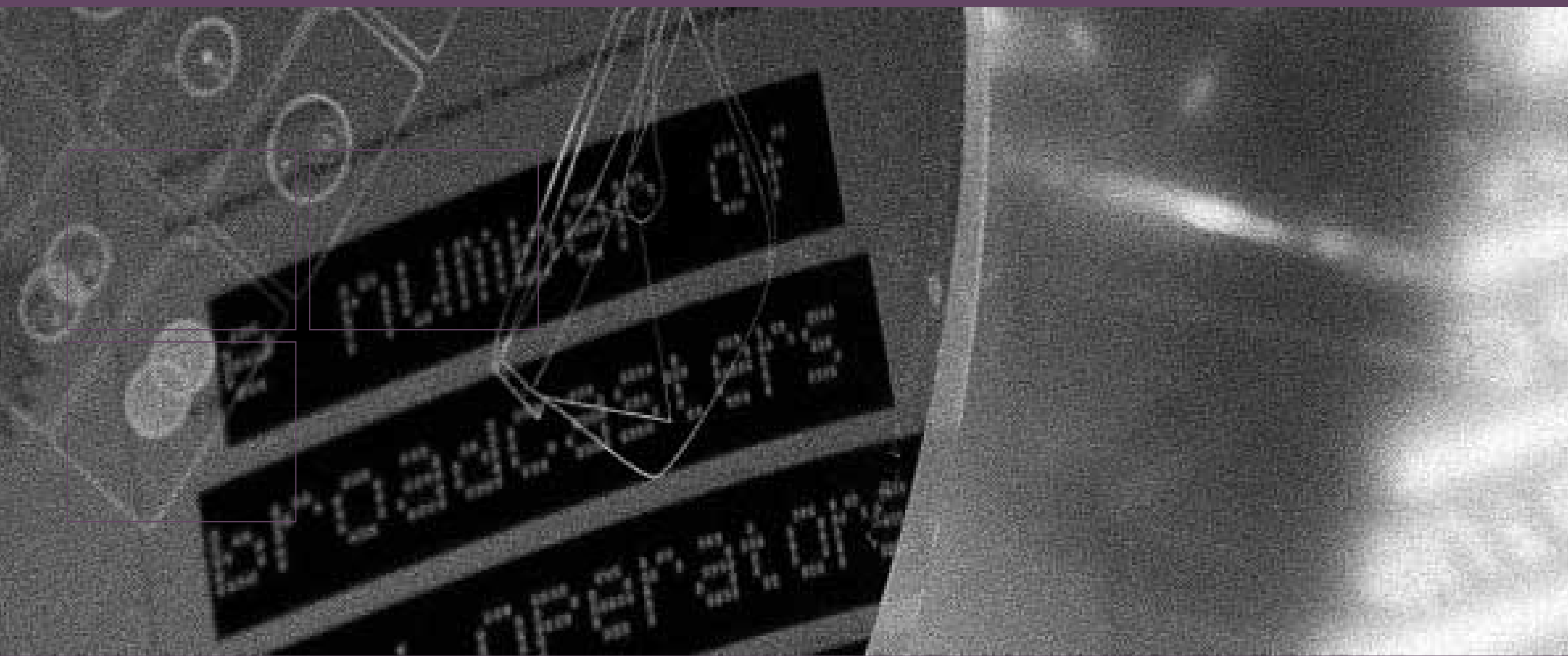
11. INDIVIDUALS CONSULTED

In addition to considering the responses to *Building a Global Audience*, the Overseas Markets Group consulted the following:
The Board of the British Television Distributors Association
David Graham (David Graham Associates)
John Houlton (Director, the British Film Office in Los Angeles)
Paul Dimond (British Consulate-General, Los Angeles)
Shaun Williams, Tommy Welensky, Kylie Winter (PACT)
Nick Herd (Executive Director, Screen Producers of Australia)
Sheila de la Varende (Director, Telefilm Canada)
Michael Prupas (President, MUSE Entertainment Enterprises Inc., Canada)
Jacques Peskine (USPA, France)
Tania Banotti (Director, Film Makers Ireland)
Lisa A Mundt (Vice-President – Television, the Motion Picture Association of America).

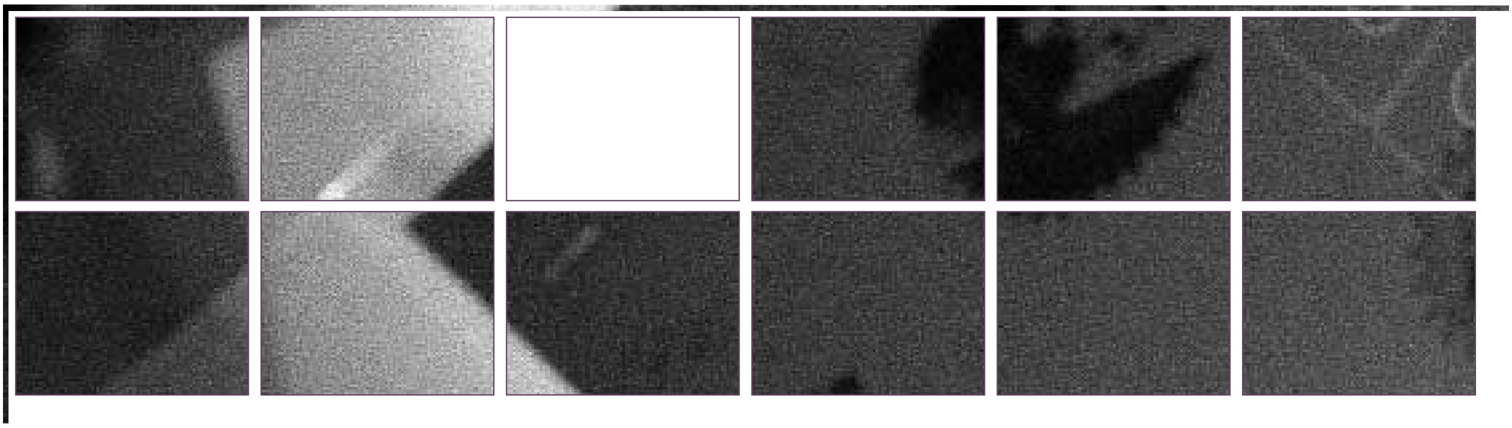


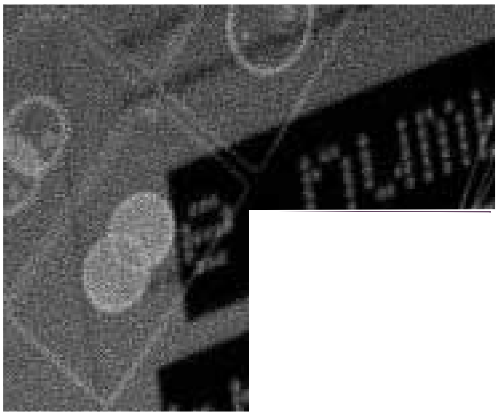
chapter 2

the report of the investment group



Contents





1. CHAIRMAN'S INTRODUCTION BY PETER BAZALGETTE

This Group has met three times: the first to brainstorm ideas, the second to take evidence and the third to finalise our proposals. We are unanimous in our recommendations.

Our remit begs some fundamental questions about Britain's television economy. We realise these will be considered in Phase II of the Inquiry. So, along with some specific recommendations, we have suggested a direction for further investigations into television rights. We are aware that there is some overlap between the Inquiry's three sub groups. We have tried to ensure that our recommendations, nevertheless, relate specifically to our investment remit.

In addition to the expert witnesses consulted (listed at the end of this paper) I should like to thank the members of our committee. Their knowledge of the UK market, distribution and the international market has been invaluable. We are also grateful to the DCMS officials for helping to pull the strands of our thinking together.

Finally, we are all too aware that greater investment in exportable television programmes primarily depends on the entrepreneurial spirit of creators and investors. Our aim is merely to encourage them with better commercial information, a competitive taxation regime, lighter regulation and a keener market in rights.

2. EXECUTIVE SUMMARY

The Investment Group recommends:

a regular forum between producers and distributors to yield the intelligence on overseas markets necessary to attract investors;

a statistics service covering UK television exports and the relative performance of key competitors in order to highlight business opportunities and monitor performance;

a more flexible tax incentive structure to benefit, in particular, the international co-production of animation and TV movies;

better explanation and greater promotion of the available tax incentives by Government;

a rights fund to encourage UK animation production;

some relaxation of the rules governing programme-related merchandising to encourage investment in, and the export of, children's programmes; and

clearer separation and valuation of programme rights in the market place in order to increase the number of properties attractive to investors.

3. TERMS OF REFERENCE

At the meeting of the main Inquiry on 2 June 1999, the Secretary of State asked the Investment Group to consider a range of issues affecting investment in the UK television production sector, with a view to improving the UK's export performance. In particular, the Group was asked to consider:

barriers to investment in the present structure of the UK television industry, including the ways in which programme rights are sold;

the performance of existing tax incentives and other means of Government support;

any effects on exports of present regulatory structures for commercial television; and

the extent to which UK producers take advantage of co-production arrangements.

4. THE GROUP'S APPROACH

4.1 In addressing these issues, the Investment Group took the following as its starting points:

4.2 *Building a Global Audience* correctly identified the export successes of the UK television industry and stressed that improvement is both necessary and desirable. A number of the responses to the David Graham Associates report have argued that, as the demands of the UK audience are paramount, television exports are relatively unimportant. We agree that broadcasters' first priority must be their domestic audiences – but we do not believe that this precludes the making of high-quality programmes which are attractive to overseas markets.

4.3 **Export success benefits UK audiences by generating revenues which may be invested in high quality domestic programmes (which may themselves be successfully sold abroad).** We believe that such a virtuous circle is both possible and desirable and that it is essential that producers large and small are able to reap the benefits of export success. Success in selling British television programmes overseas can help exports more generally by offering a positive portrayal of the UK.

4.4 **Many of the UK's competitor nations offer more extensive support to their television industries in the form of tax incentives and direct state funding. This effect is particularly apparent in the production of animation programmes and television movies.** We believe that Government incentives are important in generating investment which should then become self-sustaining. Moreover, the UK animation sector is struggling in the face of competition with state-supported companies overseas and would benefit from a more level playing field.

5. EXPORT INTELLIGENCE AND TRADE STATISTICS

5.1 *Building a Global Audience* noted that the UK's television distributors and production companies are generally considered to be professional and adept. We agree that the UK's television industry has been efficient in exploiting overseas markets – but we believe that more extensive intelligence on these markets may further improve its performance. **We strongly recommend an effective forum in which producers and distributors may exchange intelligence about target markets.** The forum may well take the form of an expanded and better-funded British Television Distributors Association (as recommended by the Overseas Markets Group). As well as working closely with PACT, the forum should include UK broadcaster/producers which are not currently represented on either body, with the aim of bringing potential opportunities to the attention of production companies of all sizes. We recognise the potential conflicts of interest between distributors and producers who are, after all, often on opposite sides of commercial negotiations. But we believe that there are potential benefits in some pooling of export intelligence. As will be seen in the discussion of tax incentives below, financial institutions now expect producers to demonstrate the value of export rights to potential investors.

5.2 We also believe that **regular and accurate statistics of UK television exports and the trade performances of competitor countries would greatly assist exporters by highlighting sales opportunities and monitoring year-on-year performance in target markets.** We are aware that the Overseas Markets Group has considered this point in detail. One route would be to continue the work on scheduling in overseas countries done by David Graham Associates; another would be the improved monitoring of programme exports by value (perhaps by improvements to the research functions of the BTDA). We note here that DCMS is in discussion with the Office of National Statistics with a view to improving the official statistics.

6. TAX INCENTIVES AND CO-PRODUCTION

6.1 The Investment Group has considered tax incentives for the television industry in as much detail as possible. The present UK incentives apply equally to film and television. Ideally, we consider that the television industry would benefit in the long term from an incentive scheme specifically tailored to its needs. However, in the short term we confine ourselves to making specific suggestions for revising the existing incentive framework, retaining its present general form. We consider that our proposed changes would make it easier for UK companies to co-produce with overseas partners. We also propose that the present tax incentives should receive wider publicity.

6.2 We consider the operation of the present tax breaks below before comparing them to those available in a number of other countries.

6.3 The UK Incentives

The UK tax incentives introduced by the Finance Acts of 1992 and 1997 are designed to ensure an adequate level of involvement by British, Commonwealth and European filmmakers and producers in UK film and television production. Although originally designed to stimulate the (then) ailing UK film industry, they apply equally to television productions.

6.4 Under taxation law the ‘master copy’ of a film or programme is treated as a business asset. The incentives allow accelerated write-offs of all production expenditure. Without specific legislation, such capital expenditure would otherwise be relieved far more slowly against a company’s profits in the form of depreciation. Following the 1992 Act, film companies may elect to set one third of all production expenditure against income in each of the first three years after the completion of the film. Additional changes were made by the present Government in 1997. Provided the total cost of a qualifying film or programme is below £15 million, all production costs may be written off in a film company’s accounts for the first year after the ‘master copy’ is completed.

6.5 To qualify for the incentive, films must be certified by the Secretary of State for Culture, Media and Sport under the Films Act 1985. Until the criteria were amended in July 1999, anomalies arose from the way British films or programmes were defined (for example, *Judge Dredd* qualified as a British film whereas *Sense & Sensibility* did not because much of its soundtrack was produced in the US). A simpler and more durable method of defining UK productions was announced by DCMS on 8 July this year. A film or programme now qualifies as British if 70% of the total production budget is spent in the UK and if 70% of the labour costs involved are spent on European and/or Commonwealth citizens. Television series of up to 26 episodes may also be certified as a single production under the revised regulations (the limit was previously 16 episodes).

6.6 Film and television production companies may also benefit from the Enterprise Incentive Scheme (which replaced the Business Expansion Scheme in 1994).
Unlike the specific film and television incentives (which allow relief to the production company), the EIS effectively rewards investors. Individuals who purchase up to £150,000 of new shares in UK-registered trading companies which are not listed on

the Stock Exchange may claim tax relief against general income or capital gains. The Scheme applies to trading companies across the economy which have assets not exceeding £10 million before any investment relieved under EIS.

6.7 Use of the Incentives

CMS figures show that some television production companies have been using the incentives allowing accelerated write-off for several years. Claims for certification from 1993 to 1998 were as follows:

CLAIMS IN RESPECT OF:	1993	1994	1995	1996	1997	1998
TELEVISION PROGRAMMES	28	1	64	79	8	140
FILMS	2	3	8	14	14	55
TOTAL FOR YEAR	30	4	72	93	22	195

(The figures for 1998 reflect the changes made in the Finance Act 1997.)

6.8 At first sight, these figures seem to suggest that the television production industry is using the existing tax incentives efficiently. However, the number of claims for each year is inflated by blocks of programmes submitted by a small number of major broadcasting groups. We are informed that this has led to the production of some programmes which may not otherwise have seen the light of day. However, we find it perplexing that some companies seem to use the incentives widely while others do not.

6.9 We believe that overall use of the tax incentives by independent production companies is extremely limited, and that it is true to say that many small to medium size firms are either unaware of the available tax breaks or believe that they apply only to cinema projects. The recent publicity given to the incentives following the changes to the criteria in July may help to raise awareness, but **we believe that DCMS and other Government departments should take steps to ensure that all production companies which might benefit from the present tax incentives are fully aware of them.**

6.10 Sale and Leaseback

In practice, production companies often take advantage of both types of incentive with the aid of financial institutions. A production company financed using EIS will often sell its film or programme to a bank or other institution then lease it back. This provides early finance for the producer (which does not then have to rely on pre-sales), while allowing the purchasing institution to use the tax relief arising from the accelerated write-off against its own profits. We find it significant that no project will usually be considered for financing in this way unless producers are able to demonstrate that there are viable overseas rights.

6.11 Sale and leaseback has now become the norm in financing film projects and is increasingly being used for television productions. Such complex financing arrangements often entail substantial legal and accountancy costs, though these costs are falling as financial companies and institutions become sufficiently familiar with sale and leaseback to apply standard agreements.

6.12 We have been told that the institutions which operate the major schemes (Ernst & Young, Close Brothers, Grosvenor Park and Factor 8 among others) are finding that the level of funds available for investment in sale and leaseback schemes now exceeds the supply of suitable television and film projects. As well as a general lack of awareness of the tax incentives referred to above, this is partly because many producers do not investigate their financial options at an early stage (if they are to be of benefit, these arrangements must be in place at the earliest stage in production). We believe that DCMS should be publicising the benefits of sale and leaseback deals along with the tax incentives themselves.

6.13 In addition, it is clear that, although some UK broadcasters have not pursued sale and leaseback projects for technical accounting reasons, others will not consider such projects at all. As well as a belief that sale and leaseback arrangements are still cumbersome and expensive, there is clearly uncertainty over the present attitude of the Inland Revenue to sale and leaseback deals. We were told that one major UK broadcaster discourages independent producers from entering leaseback arrangements for that reason. The sooner these doubts are dispelled, the better for the industry.

6.14 The industry would also benefit from greater certainty over the longevity of the present tax incentives. The accelerated write-offs introduced in the Finance Act 1997 for programmes or films costing under £15 million apply to productions completed before 1 July 2002 (following an extension in the last Budget). The 1992 regulations which allow write-offs over three years are not time-limited in this way. We recommend that the 1997 regulations which allow 100% of production expenditure to be written-off in the first year should not be time-limited.

6.15 Tax Incentives Overseas

We have examined the tax incentives available in a number of countries. We have not had the time to examine the tax regimes of these territories in detail, but the available tax breaks are broadly summarised as follows:

Australia – a 100% tax deduction for investors is available on the purchase of shares in a production company or on outright purchase of a film or television project (in place since the early 1980s). The deduction applies to investment in Australian feature films and certain television genres: TV movies, mini-series (including children's drama) and documentaries. The scheme is mainly used for film production, and has created some problems of tax avoidance (in some cases money has been directed offshore into US-based films).

Canada – 'content credits' relief is available to companies producing films or television programmes which qualify as having 'Canadian and/or Canadian provincial content' (ie shot in the country with a predominantly Canadian cast and crew). Relief up to a maximum of 48% of the total project budget is allowed against tax payments arising from the employment of Canadian labour (the UK analogy would be relief against PAYE liabilities). Projects not entirely shot in Canada receive relief in proportion to the amount of the budget spent in Canada. Further provincial tax credits are available for such projects. Limited 'non-content credits' for projects partly shot in Canada but not meeting the above criteria are also available. Provincial incentives are also offered in addition to the federal schemes. Depending on the province in which production is carried out, federal and provincial incentives may be worth from 10-21% of a production's budget.

Germany – Tax relief may be claimed on investments in films or television series. Losses arising on production costs are allowable against investors' general income for the year in which the losses arise. The scheme is designed to encompass co-production projects.

Ireland – the Taxes Consolidation Act allows an investor relief against general income on investments in films and certain television genres (TV movies, animation and major drama). 60% of a project's budget may be relieved in this way (50% if the budget is over £5 million). Claims are generally made in respect of cinema projects. The Irish are presently considering the effectiveness of the scheme having recently published a report on film funding. Certain film and television production companies may also qualify for a reduced rate of Corporation Tax. Anecdotally, the Irish incentives are said to account for up to 10% of a project's budget.

Spain – Spanish production companies making films and some television genres (drama, animation or documentaries) are entitled to a tax credit on certain production costs (up to a maximum of 35% of the total tax charge). In addition, revenues arising from the export of Spanish productions in these categories are 99% tax exempt.

USA – There are no federal tax incentives. Widespread tax exemptions are, though, allowed at state level for film and television production. Almost all US states offer whole or partial exemptions from state sales tax; many states exempt production profits from corporation and personal taxes; a number offer tax rebates on the purchase of assets for use in film or television productions, and approximately half of US states offer exemptions from taxes on hotel occupancy by cast and crew.

6.16 Although this survey is limited, it shows that many countries offer more generous tax incentives to the film and television industries than the UK. The accelerated write-offs available here, when used in conjunction with a sale and leaseback vehicle, are said to provide a net contribution of about 5% of a production's budget (though use of the Enterprise Investment Scheme as well as sale and leaseback may increase that percentage). Australia, Canada, Ireland and Spain offer generous tax incentives for television production in certain genres. Spain also targets its tax breaks at export material, and in the United States there are wider ad hoc incentives to the television industry as a whole.

6.17 It can be seen that the use of tax incentives for the entertainment industry is widespread and accepted. It is not our intention to investigate the historical reasons for tax breaks taking their present forms. However, we note that the extensive tax incentives available in certain countries have the potential to work against fair international competition. The Government may wish to consider this point further, possibly in the context of discussion with international bodies. We do not recommend that the UK should follow the international examples examined above. We are recommending an extension of the existing tax breaks to encourage co-production.

6.18 Co-production and Co-financing

Building a Global Audience noted that, although audiences in all countries increasingly prefer domestically produced programmes, the level of co-production activity is increasing worldwide. The report concluded that UK broadcasters and producers continue to be wary of co-production, partly due to a longstanding reluctance to repeat mistakes made by an earlier generation of programme makers making big-budget co-productions with European partners. We agree that this fear of 'the Euro pudding' drama still lingers. However, the world market has moved on. 'True' co-production projects involving creative collaboration between national programme-makers are still made, but co-production is now more often viewed as a sophisticated method of attracting investment in programmes which may be, but are not necessarily, aimed at a wide international audience. Co-financing is perhaps a better term for this (though for clarity we continue to use 'co-production' below).

6.19 British companies have successfully co-produced programmes for many years. We believe, though, that there is room for improvement. There are clear benefits in UK companies becoming more attuned to the particular demands, not only of making programmes in partnership with overseas producers, but of seeking funding for them. Some extension of the present UK tax incentives may encourage UK producers to do this.

6.20 Although co-production has long worked well for factual and documentary programmes, we consider that drama offers greater potential rewards. There are special export opportunities in **TV movies**, which *Building a Global Audience* demonstrated to be attractive to schedulers in many overseas markets. German producers now successfully co-produce English-language television movies with US companies on an industrial scale. This is not an area in which the UK has traditionally excelled. But although there are structural and cultural reasons for the lack of British co-production activity in this genre, we consider that our producers and broadcasters can and should offer serious competition in this market.

6.21 We make specific proposals for the UK **animation** sector at section 7 below. It should be noted here, though, that co-production is now the norm in animation due to the cost of producing anything other than shorts. Whether or not they are producing with overseas partners, animation companies can face particular problems in using the present UK tax incentives. The relatively long production times of animation projects make them unattractive to investors wishing to take advantage of accelerated write-offs.

6.22 More generally, UK producers involved in co-production in all genres often do not own sufficient of the rights to a project to make sale and leaseback feasible. In addition, to qualify for EIS, companies must be registered in the UK and must conduct all or most of their trade here. Some co-production ventures do not, therefore, qualify for relief. It is true that the UK has a number of co-production treaties with other countries. One effect of these treaties is that the UK tax incentives are available to producers even if less than 70% of the production spend is incurred in the UK. However, only the treaties with Australia, Canada and New Zealand include television production along with film projects. The treaties with France, Germany, Italy and Norway apply only to projects for cinema release. **We recommend that the**

Government should seek to increase the number of countries with which the UK has co-production treaties, and that those existing treaties which apply only to film should be extended to television productions.

6.23 **We also propose that the existing UK tax incentives should be extended to all co-production projects. British companies engaged in bona fide co-productions with overseas partners should be eligible for relief on a sliding scale in proportion to the percentage of the total budget expended in the UK** – whether or not a co-production treaty is in force (ie in such circumstances, relief should not be restricted to those projects in which over 70% of expenditure is in the UK).

6.24 We make one further recommendation concerning the UK tax incentives. We welcome the recent extension of the number of episodes in a television series which may be treated as a qualifying programme for the purposes of claiming relief under the Finance Act 1997 to 26 (see 6.5 above). However, animation 'shorts' of 5-10 minutes are usually made in series of 52 episodes. We believe that it is fair that the UK tax incentives should also apply to such programmes, and **we recommend that the qualifying criteria should be further extended to accommodate them.**

7. ADDITIONAL HELP FOR THE UK ANIMATION INDUSTRY

7.1 Animation occupies a peculiar position in the world television economy. It easily crosses national frontiers (not least because of the relative ease of re-dubbing), and in this respect it is similar to the film industry. But UK broadcasters are only prepared to pay very low amounts for animated programmes compared to the costs of production. In comparison with production in other genres, these costs are high. Typically, a series of 26 episodes of an animation series in the 26 minute format popular with international schedulers will cost from £3.5 to £4.5 million.

7.2 The UK animation sector has further handicaps in competition with other nations. British animators are respected as highly creative in a growing part of the international television market. But more sympathetic tax and funding regimes in other countries often lead to the rights to UK - originated creative projects being held by overseas partners with easier access to finance. This is particularly the case in Canada and France, where generous state subsidies are available as follows:

Canada – approximately CAN$200 million is distributed annually for the making of Canadian programmes and films under the 'Licence Fee Program', jointly funded by the Canadian government and the cable industry. Telefilm Canada also supports domestic production through the 'Equity Investment Program' (under which Telefilm advances funding in return for holding certain programme rights). There are also grants and loans paid through Telefilm for dubbing programmes and for acquiring the foreign rights to Canadian films.

France – the Centre National de la Cinematographie (CNC) offers subventions for original French programming – particularly animation. The CNC is funded by a levy of 5.5% on broadcasters' profits which generates some FFr1 billion, of which about two thirds goes into television production.

7.3 Although these subsidies are not specifically targeted at animation, they create clear funding advantages for animation producers in many of our competitor countries. Although we do not believe that there is a case for offering such direct subsidies to the generality of the UK television industry, we believe that the animation industry is a special case. We feel that the extension of the present tax incentives alone would not provide the more level playing field needed by our animation sector. Indeed, we believe that if further assistance is not made available to UK animation, we will in time lose our presence in the genre completely.

7.4 Accordingly, **we recommend that the Government and the television industry should consider setting up a rights fund for animation projects.** It has been suggested to us that such a fund could make advances to animation producers of up to 20% of a programme's budget, perhaps guaranteed against 30% of the value of the programme rights. It is too early to make firm proposals on the funding of such a body, but the Government and the industry may wish to consider:

National Lottery funding (with matching funds from the industry);

the use of a proportion of the ITV companies' licence payments; and

a levy on broadcasters (this is not a recommendation – the Group was unable to agree on the merits of a levy).

7.5 More generally, we note that animation producers find it very difficult to set up international co-productions for children's series without the involvement of the BBC or the ITV Network. We have been informed that the commission rates (ie the contribution to a project's budget) paid for children's animation programmes by the BBC and ITV are often as low as 8% and 18-28% respectively. This compares to 80-90% for drama projects intended for broadcast in prime-time. The need to accept such low rates if co-production finance is to be considered further handicaps the UK animation industry. We make no firm proposals on this point, but we invite Phase II of the Inquiry to look specifically at the valuation of rights for animation programmes.

8. ADVERTISER FUNDING AND PROGRAMME SPONSORSHIP

8.1 We have considered the possible effects on investment and exports of the present restrictions on advertisers' and sponsors' involvement in television production. These matters are regulated by the Independent Television Commission by means of the ITC Programme Code, the Code of Programme Sponsorship and the Code of Advertising Standards & Practice. The issues raised in this section do not relate to the BBC and our recommendations have thus not been commented on by the Corporation.

8.2 Programme sponsorship and advertiser funding have been permitted by the ITC since 1989. Some £44 million worth of UK programmes are now sponsored (1.5% of the total for commercial television). Advertiser funding, which is less established in the UK, may take the form of whole or partial funding of a programme, or barter arrangements under which an advertiser pays some or all of the production costs of a programme in return for airtime for its (separate) advertisements.

8.3 We have been told that UK viewers see no difference between sponsorship and advertiser funding and that most viewers watching sponsored programmes believe that the credited sponsor has actually paid for production. The sponsorship sector's assessment (based on market research) is that viewers do not object to what they see as advertiser funding so long as the resulting programmes are of good quality and that the associated brand or product seen is reputable. Furthermore, it has been argued that there may be some pent-up demand from advertisers for programme sponsorship and funding opportunities, and that levels of investment from advertisers may be held back by regulation and by broadcasters' attitudes to this form of funding.

8.4 The restrictions which apply to barter and advertiser funding are complex. For our purposes, though, it is enough to note here that advertisers are not allowed control over the editorial content or scheduling of programmes with which they are associated. On the whole, the sponsorship sector, like the UK television industry, accepts the principles of protecting editorial independence and preventing the exploitation of viewers.

8.5 Some specialist programmes are already closely associated by viewers with sponsoring companies. It has been argued to us that it is in the interests of such reputable advertisers to ensure that the programmes with which they are associated are of high quality, and that such firms may not consider sponsoring or funding a programme if they are unable to exercise some form of 'quality control'. Although we agree that the relaxation of the regulations may indeed stimulate further investment by advertisers, we have been unable to define how an advertiser may exercise more 'quality control' without having effective control over the editorial content of a programme. Accordingly, we do not recommend any changes to the present form of regulation.

8.6 However, we believe that UK broadcasters should adopt a more positive, and a more realistic, view of the funding of programmes by advertisers. Direct funding and barter arrangements have the potential to create high quality programmes with export potential. *The Pepsi Chart Show* (Channel 5), funded by advertising, has been re-formatted and sold to 10 countries. It has been argued to us that UK broadcasters should take a more positive view of independent producers having direct access to sponsorship and advertiser funding. Although we endorse that statement in principle, we are aware that the relationship between advertisers and broadcasters is a complex one with which we have been able to engage only in broad terms in the time available to us. It has not yet been demonstrated how often advertiser funding arrangements could bring injections of fresh money by advertisers, rather than an alternative use of existing budgets.

8.7 Finally, we believe that the inclusion of programme funding from advertisers (as distinct from sponsors) in the ITC's calculation of Qualifying Revenue for levy purposes discourages broadcasters from seeking funding of this kind. Funds received from advertisers to make programmes are (by definition) immediately invested in programme production. **We recommend that the ITC should not treat such revenues in the same way as income from the sale of advertising airtime.**

8.8 We make only limited recommendations on programme sponsorship. Subject to detailed regulation on the length and form of credits, sponsors are permitted to show brand names in buffer credits at the beginning and end of programmes, and before and after advertising breaks. Programme sponsors play no part in funding production, and we have been told that the present level of regulation is broadly accepted by the television and advertising industries. It has been argued to us, though, that placing sponsorship of children's programmes is difficult – if not impossible – even though such sponsorship is in principle permitted under the ITC's regulations. **We recommend that regulators and broadcasters should review policies on advertisers sponsoring children's programming.**

9. PROGRAMME-RELATED MERCHANDISING

9.1 We have consulted leading companies which specialise in programming which is closely allied to the merchandising of toys and other products – typically, animation. We were told that the issues of rights sales and the relationship between producers and broadcasters are more central to the export prospects of such firms than regulation (these issues are discussed at section 10 below). Our attention was, though, drawn to two regulations governing programme-related merchandising:

(a) products tied-in to a programme or series must not be marketed before that programme or series is transmitted (and programmes based on pre-existing toys or games may not be broadcast). This is designed to ensure that television programmes – and especially those aimed at children – do not function as advertisements for pre-existing merchandise; and

(b) advertisements for merchandising based on a programme may not be broadcast in the two hours preceding and following the transmission of that programme.

9.2 Those we consulted accepted the principles behind regulation in this area. However, they stressed that regulation should not be extended, particularly in view of calls in the European Union for the prohibition of advertising aimed at children. With such a loss of advertising revenue, such a prohibition would lead to a fall in production of children's programmes. It would certainly lead to a decline in quality, with less production of drama, for instance. We agree that regulation should not be extended. It has been argued to us that, as they stand, the restrictions outlined above are damaging to investment in programmes in this genre.

9.3 We believe that the distinction between those programmes which are based on pre-existing products or merchandise and those which themselves generate products or merchandise following broadcast is a contrived one. The abolition of this restriction may help to improve investment (and very possibly export) levels in programmes of this kind. We are confident that the public interest in protecting the exploitation of viewers could be adequately safeguarded through the operation of the market (as we believe that responsible broadcasters would not commission or accept programmes with an unacceptable advertising content). In addition, those we have consulted regard the two hour restriction set out at (b) above as unnecessary – especially as a growing proportion of children have instant access to programme-related advertising on the Internet.

9.4 The Group recognises the need to protect children from commercial exploitation. However, we accept that advertising revenues are necessary to encourage broadcasters to fund the production of children's programmes. Accordingly, **we believe that both restrictions should be relaxed. However, in the case of the two-hour restriction set** out at (b) above, we recommend that advertisements for products featured in a television programme should continue to be prohibited during that programme and immediately before the start, and after the finish, of the programme.

10. THE SALE OF PROGRAMME RIGHTS

The Investment Group expects that the relationships between producers, distributors and broadcasters will be considered in Phase II of the Inquiry. However, any examination of investment and exports is bound to lead to consideration of the structure of the UK television market. We discussed some of the issues, including:

the extent to which producers need to demonstrate the value of all secondary rights in their programmes in order to attract investors – both for the domestic and the international markets;

the extent to which the clear separation, valuation and proper exploitation of rights is necessary to enable producers to attract meaningful levels of investment; and

the impact which changes in the arrangements for the sale of rights would have, both on the economics of broadcasting generally and on the UK television industry's performance in export markets.

These issues could usefully be addressed in Phase II.

11. GROUP MEMBERS

The Investment Group was as follows:

Peter Bazalgette (Chairman)
Brian Harris
Leslie Hill
Jules Burns
Colin Jarvis
Jane Lighting.

12. INDIVIDUALS CONSULTED

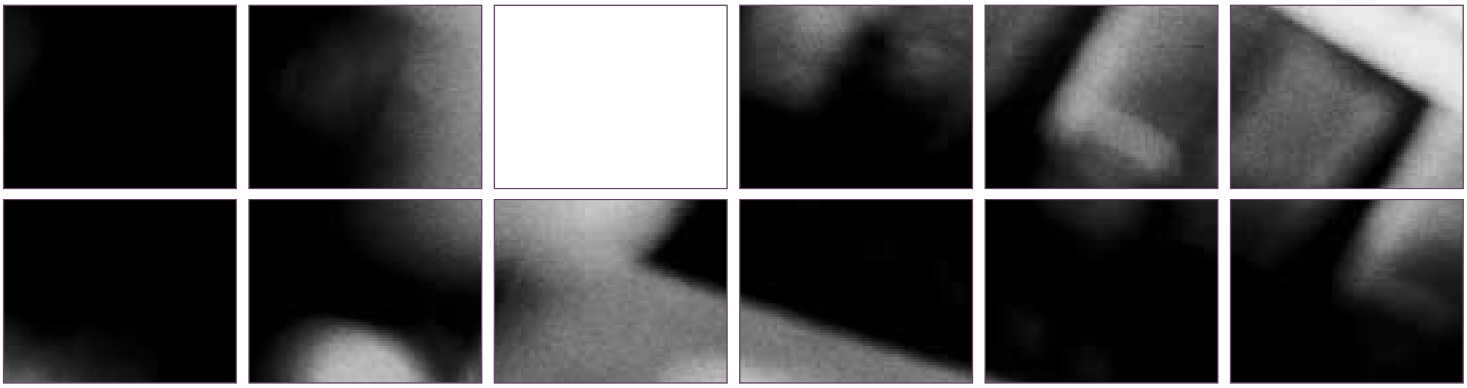
In addition to considering the responses to *Building a Global Audience* and the information provided to DCMS by contacts overseas, the Investment Group consulted:

Tess Alps (Drum PHD)
Charles Caminada (HIT Entertainment and BTDA Chairman)
Rupert Dilnott-Cooper (Carlton International)
Diane Freeman (PACT Animation Committee)
William Harris (Britt Allcroft)
Matthew Horsman (Investec Henderson Crossthwaite)
Jonathan Peel (Millimage and PACT Animation Committee)
Mark Pickering (Videal)
Jim Reeve (Web Film Finance)
Hugh Richards (3i)
Anne Wood (Ragdoll Productions)

chapter 3

the report of the right product group

Contents



1. CHAIRMAN'S INTRODUCTION BY RUPERT GAVIN

The Right Product Group has set out to address the UK's television export position from the product perspective, posing the questions:

Do we have the right product? and

How can we improve our product for the international market?

In addition, we were asked to look at the questions of rights and of talent. Our recommendations in response to these questions have been developed on the basis of quantitative research and consultation with industry representatives. We commissioned David Graham Associates to conduct further analysis of the data gathered for *Building a Global Audience*. Given the magnitude of the subject area we have endeavoured to provide practical solutions, which will deliver results in a reasonable time frame.

First, it is I think worth emphasising that at present the UK has a healthy export position. The 9% share by volume identified in *Building a Global Audience*, though some way behind the US, is three times that of our next closest competitor. Although the data only quantifies our share by volume, we have a strong position in the primetime market (the most valuable daypart), in which UK exports account for 13% of the market. As an industry, that places us ahead of the computer and software industry and not far behind our most successful international creative industry, the music industry. Our exports have trebled from 1990 to 1996, significantly outpacing the international TV market growth. The market trends suggest that our export position should improve in the future.

We should also be very cautious about drawing conclusions that are too hard and fast based only on the single year's worth of data in *Building a Global Audience* – a volume rather than value measure which captured a limited number of territories and broadcast outlets.

That is not to say that we should not aim for a greater share. From the product perspective there are some fundamental industry issues at play, which are unlikely to be, and should not be, changed by Government initiative. UK broadcasters naturally programme for UK audiences, and UK audiences prefer home-made programmes. Furthermore, the UK production sector secures the majority of its funding from UK broadcasters. In the pursuit of sound economic self-interest and/or specific public service commitments, international demands rightfully take second place in the industry's considerations.

However, while not attempting to alter this structure, there are some key areas for action that will have more immediate impact on our international position as it relates to product. These actions are summarised under our key recommendations in the following section.

2. EXECUTIVE SUMMARY

The Right Product Group recommends:

an annual update of the *Building a Global Audience* survey of the international market which should measure trade statistics by both volume and value;

a statistics service commissioned by DCMS and the BTDA which should cover secondary channels and should include breakdowns of exports by genre;

a UK producers' training scheme to allow the transfer of knowledge from key export markets, jointly sponsored by key industry distributors and the Government;

the adoption of systems to break down communication barriers between commissioners, distributors and producers;

an extended intelligence and research role for the BTDA;

an annual awards event for the best of UK exported programmes;

that DCMS should develop an information strategy for non-audio visual policy developments and a dedicated team which should;

– liaise with representatives of broadcasters, production, distribution and talent;
– synthesize and distribute information on key rights developments; and
– seek to prevent detrimental shifts in international law relating to talent rights.

that an assessment be carried out of the role of UK film distribution;

that Phase II of the Inquiry should conduct a detailed assessment of the role of international channels and of their possible benefits for UK broadcasters;

a funding scheme for productions designed for the international market (possibly Lottery funded);

the consideration of tax incentives for the reversioning of programmes as a temporary measure to stimulate activity in this area;

an assessment of potential tax incentive schemes designed to support the development of specific programme genres, particularly children's, in Phase II of the Inquiry.

3. THE UK'S MARKET POSITION

3.1 This section provides a detailed analysis of the UK's market position. Improving our understanding of our market position – and thus whether we are selling the right product – requires consideration of the following questions:

What is our benchmark? We need to identify who we consider to be our competitors and who we should be outperforming or stealing market share from.

What are we selling well and what are we selling badly? We need to clarify the genre breakdown of our market share.

What does the market demand? We need to define which products are successful in the international market.

What can we learn from the US? We need to identify the key success factors from the US.

What is the role of the film industry? We need to evaluate how the film industry can be developed in support of our TV export ambitions.

What is the role of international channels? We need to clarify how these impact upon the UK position.

What role can tax incentives play? We need to identify possible ways in which tax incentives can support our market position.

3.2 To develop a more detailed understanding of our market position, we sponsored additional analysis of the data gathered for *Building a Global Audience*. The data was re-evaluated to identify the breakdown of the UK market share by genre and by daypart. In considering this data we should be mindful that it measures only the volume of UK sales and that it was collected in a single year, September 1996 to August 1997. It would therefore be dangerous to draw any firm conclusions purely on the basis of this data. It is a priority to consider ways to improve the data available to cover a longer time-period and to express market share in value terms.

3.3 What is our benchmark?

Building a Global Audience noted that the UK accounts for 9% (by volume) of the international television export market. Table One presents this figure in the context of the other eight major TV exporters, allocating their exports by timeslot. Although we are a distant second to the US (68% of the market), our share is three times that of our next closest rivals, France and Australia. This indicates a strong international position. The breakdown of exports by timeslot reinforces this view and indicates that, in value terms, the UK share may actually be higher than 9%. The UK claims a 13% share of primetime, which can be assumed to be the highest value daypart. This is more than six times the primetime share of our next closest competitor.

Table One: Market Share for TV Exports by timeslot 1996-97

MAJOR EXPORTER	US	UK	FRANCE	AUSTRALIA	CANADA	GERMANY	ITALY	JAPAN
DAYTIME	71%	6%	3%	3%	2%	2%	1%	1%
PRIME	68%	13%	2%	2%	1%	2%	2%	0%
NIGHT	64%	12%	4%	2%	1%	1%	3%	0%
TOTAL	68%	9%	3%	3%	2%	2%	2%	1%

3.4 The US presents formidable competition in the world export market, given:

the scale of the US domestic market;

the commercial nature of this market; and

the globalisation of US culture.

3.5 However, if the UK is to improve its market position, it is most likely to be through stealing market share from the US. Although it is unrealistic to benchmark our market share against that of the US in the international market, the UK should be aiming to compete with the US if we are to build our global position. The UK should benchmark its export position on a country by country basis. The UK is performing well in those markets which have traditionally bought UK product, for example Sweden and the Netherlands. However, the UK falls to third position in Spain, Italy and France.

3.6 With 9% of the market, the television industry is outperforming our global GDP position (we have 4.7% of total global GDP). Comparisons with the data available to us indicates that the television industry's 9% is ahead of many other sectors of the UK economy, such as software and computer services. The UK television industry is also not far behind our most successful creative export, music, which is not victim to the same language barriers as television.
The official trade statistics for the years 1991 to 1997 indicate that UK television exports grew at an average compound rate of 30%. During the same period, world trade in television services grew by an average compound rate of 10%.

3.7 Key Findings:

The key overall finding is that the UK is performing well in television exports.

The UK's market share of 9% is three times that of our next closest rivals, after the US.

We are firmly in the number two position, as we would expect and hope.

The UK claims a 13% share of the primetime export market, six times the share of its closest rival.

The strength of our primetime exports suggests that our total value share may exceed 9%. While subject to lesser language barriers, the music industry is not far ahead of the television industry in its share of the international market.

3.8 What are we selling well, and what are we selling badly?

Table Two provides a breakdown of market share by genre (1). The UK's market share position is reasonably consistent across genres. Factual is our notable strength with

1. The *Building a Global Audience* data does not include international channels.

18% of the market. However, for kids' programming the UK drops to fourth place behind Japan and Canada.

Table Two: Market Share by Genre 1996-97

MAJOR EXPORTER	US	UK	FRANCE	AUSTRALIA	CANADA	GERMANY	ITALY	JAPAN
DRAMA [2]	72%	8%	1%	4%	2%	4%	1%	0%
FACTUAL	37%	18%	1%	4%	3%	1%	0%	1%
FILM	63%	12%	6%	1%	1%	2%	4%	0%
LE [3]	60%	4%	0%	3%	5%	0%	1%	6%
KIDS	85%	8%	2%	1%	0%	0%	0%	0%
TVM	81%	6%	1%	1%	3%	1%	1%	0%

3.9 The 12% of the film export market is assumed to be low value, given that UK film exports are largely made up of archived films which may be decades old. Although drama accounts for a third of our exports, these programmes face strong competition from the US, which captures a 72% share of the international market compared with the UK's 8% share.

3.10 The UK is strongest in the factual genre, where our exports account for 18% of the market. We are successful in this area because:

we have developed a strong talent base to support this genre;

the UK has a strong commitment to public service broadcasting;

programmes in this genre tend to be more culturally transferable, and

the US studios are less likely to package this genre of programming with their films.

3.11 An extension of the factual market is the education market. We anticipate that there will be an increase in demand for this genre. Broadcasters around the world, particularly those focusing on the digital market, are considering launching a number of education channels. Our market dominance in factual programming places the UK in a strong position in this growing market.

3.12 Our weak export position in kids' programming is notable in this survey, though this only captures our position over a limited time period. Underperformance in this genre could, in part, be the result of the widely distributed international kids channels such as Nickelodeon and the Cartoon Network. These channels are increasingly squeezing out children's programming on local networks. Japan and Canada have very successful animation industries, particularly the Japanese manga style cartoons. In recognition of the universal appeal of this style of cartoon, Disney has recently acquired a Japanese animation company. Canada has also introduced extensive tax incentives in support of its television and film industries, from which the children's sector will have benefited. The Canadian incentives are described in more detail in paragraph 3.26 below. It should be noted that these figures were gathered prior to some major UK successes in children's programming, particularly *Teletubbies*. We estimate that the UK share is now well above this figure due to *Teletubbies* alone.

2. Data includes comedy and drama (eg Friends).
3. LE includes lifestyle programming and game shows.

Key Findings:

18% of the market, factual is the UK's most successful genre of programming, but accounts for only 7% of the international market.

Drama accounts for over a third of our exports, but faces considerable competition from the US, and thus accounts for only 8% of the market.

With the exception of kids, the UK maintains second position in the export table for all genres.

Our 4% share of the kids export market is behind that of Japan (6%) and Canada (5%), but we now expect to have overtaken them.

3.13 What does the market demand?

Table Three demonstrates the relative size of the global genre markets. With 37% of the market, drama far exceeds the other genres. Conversely, factual – the UK's strongest genre – accounts for only 8% of the total market.

Table Three: Market Share by Genre 1996-97

GENRE	DRAMA	FACTUAL	FILM	KIDS	LE	TVM
MARKET SHARE	37%	8%	23%	13%	13%	6%

3.14 The US dominates the drama market, producing long-running series with themes and formats that appeal to a wide audience. This domination is significantly strengthened by the position of the US in the film market. International buyers prefer to acquire drama that attracts a young demographic and maximises their audience share. At present, the drama series which command the largest audiences in the UK – and which are therefore more likely to be recommissioned – tend to attract older female viewers and relatively low proportions of younger, metropolitan, upmarket viewers.

3.15 The most popular long-running series in the UK last year, excluding soap operas and *The Bill*, were *Heartbeat*, *Casualty*, *Where The Heart Is*, *London's Burning*, *Peak Practice*, *Ballykissangel* and *Holby City*. Of this group, only *Casualty*, *London's Burning* and *Holby City* attract a relatively younger profile. ITV's stated objective of attracting a younger and more upmarket profile while retaining mass audiences will lead to the development of more drama on ITV aimed at a more appropriate demographic for the international market. Similarly, the BBC's objective of ensuring that all the 'tribes' are well served – including younger age ranges – will have a similar impact on the style of drama programming. Therefore we believe that there is a natural trend towards the development of UK drama which is suitable for the international market.

3.16 This genre analysis does not highlight the impact of UK scheduling and commissioning patterns on international sales, particularly for drama and comedy. The international market demands programmes that fill hour timeslots, and have in excess of 13 episodes. The UK tends to commission programmes that are not consistent with this scheduling model. The commercial channels are moving towards the appropriate timeslots and this is expected to be the directional trend across the industry.

3.17 What can we learn from the US model?

The success of the US does not stem from a specific focus on the international market. As in the UK, the US networks and producers are more preoccupied by the demands of their home audience. The unrivalled strength of the US television industry stems from:

the size and value of the domestic market. With 11% of the world's households, the US commands 43% of the world's television revenues;

the market position of US film product around the world;

the scale of television and film distribution which has facilitated a strong negotiating position in output deals;

the speed with which the US market will turn around a recommission as a result of the competitive pressures in the market place; and

the scale of the secondary television market – particularly cable channels – which allows producers to offset a considerable portion of their budgets.

3.18 Conversely, the UK is not only a smaller market, but within this market distribution is fragmented between the broadcasters and, in the case of ITV, between three distributing organisations. If we are to strengthen the UK's position, the consequences of any direct or indirect moves to further fragment the UK distribution industry should be carefully considered.

3.19 We should be adopting a more competitive approach to recommissioning, supported by more one-off pilots to test the market. However, there will be resistance from talent interests to moving in this direction. Writers and performers in the UK are unfamiliar with working within the pilot model and are resistant to this style of commissioning, preferring a commitment to at least four episodes. The rapid recommissioning of successful series is made possible by optioning talent. Despite UK producers attempting to enter into option agreements, talent in this country is far more resistant to long-term commitment to series than in the US.

3.20 What is the role of the film industry?

Film exports account for 23% of the total market, second only to drama. Unlike many television programmes, successful films are durable and can be resold and distributed for years after their initial release. The strength or weakness of a country's film assets has a strong bearing on its overall export position:

Film distribution – with access to both film and television rights, distributors are in a strong position to negotiate favourable output deals.

Cultural assimilation – like international channels, films are important exporters of culture which may assist exports of television programmes by association.

3.21 With a 62% share of the film export market and a 68% total market share, the US benefits from both of these factors. The US has a highly successful film and television distribution infrastructure in place. The historical development of the studio structure has created a network within which distributors have access to both attractive film product and television output.

3.22 Further growth in the UK's television exports would be stimulated by the growth of the UK's film industry, which could make more of our product acceptable internationally – particularly drama and comedy. UK film should play a central role in the outcome of the present Inquiry, and should be an important issue in any review of imports. We have considered various actions that could be taken to improve the position of UK film. The options available to us are:

to stimulate the supply of film product from the UK. Various incentives are already in place in the forms of tax breaks and the Lottery scheme;

to attempt to relate film product to television product for distribution purposes. However, in practice this is unlikely to happen and, in any event, we believe that the bundled structure of US output deals is under pressure and may not be sustained;

to consider how we can advance the UK's film distribution capabilities. The newly formed Film Council will be assessing the industry and should include this issue as a major initiative.

3.23 What is the role of international channels?

The sale of programmes to the international channels market is not included in the data gathered for *Building a Global Audience*. Across the world, international channels are increasing their market shares in a number of genres – children's (Nickelodeon and Cartoon Network), factual (Discovery, National Geographic, Animal Planet, People & Arts and the History Channel), music (MTV and VH1) and news (CNN and BBC World). The growth of this market is further reinforcing the dominance of US culture. The majority of international channels are US owned and programmed with US product. The increased penetration of these channels only serves to strengthen the US position in the international export market. Audiences are familiar with the US television product across genre, increasing their propensity to watch US programmes on local channels.

3.24 Apart from the BBC, the UK television industry has taken a more tentative approach to this market. The BBC has developed international channels either independently – BBC Prime and BBC World – or via joint ventures (with Discovery in the US, Latin America, Asia and Europe and with Pearson and FoxTel for the UKTV deal in Australia). At present, the BBC has extensive distribution totalling 244 million households outside the UK and a third of BBC programme sales are to these international channels. On a smaller scale, Granada has also set up UKTV operations in India, New

Zealand and the Middle East. With the exception of these two UK operators, though, the international channels market remains untapped.

3.25 The increase in local productions is expected to squeeze the proportion of national channels' schedules occupied by exports. The more UK owned international channels that are launched, the greater the potential to combat the declining world trend in exports to national channels. International channels also provide a platform for UK talent and the opportunity to build audience awareness of the UK 'style' of programming. As a result of airing *This Life* on BBC Americas, the BBC has now sold the format to NBC. The UK television industry as a whole should consider how to develop our international channels' position, which may entail certain parties coming together to share both content and financial risk.

3.26 What role can tax incentives play?

As the Investment Group has conducted a detailed analysis of the tax incentives available in other countries, we have not set out to conduct an exhaustive assessment of tax breaks overseas. However, there are specific incentives that cannot be ignored as the evidence suggests that they have played a major role in some countries' export performance in certain product categories. A wide variety of tax incentives have been introduced in Canada. These provide a useful frame of reference for the UK:

a 'content credits' scheme for television programmes which qualify as Canadian (ie Canadian cast and crew). Under the scheme, production companies are eligible for tax relief on 48% of the employment tax costs (PAYE);

a Licence Fee Programme, jointly funded by the government and the cable industry, under which CAN$200 million is allocated per year to the production of Canadian programmes;

Telefilm Canada allocates grants and loans for dubbing programmes and for marketing them overseas.

3.27 The UK's market position could be improved through providing similar incentives, targeted at production in specific genres. Support for the production of children's programmes, animation, and educational programming would facilitate the development of appropriate skills and infrastructures in areas where the UK should be able to gain a significant share of the world market.

4. MARKET BARRIERS

4.1 In moving forward the debate, it is essential that we spell out the barriers that restrict the UK's performance in the international market:

intra-industry communication;

UK audience taste versus the US;

the UK's scheduling and commissioning patterns; and

talent rights.

4.2 The Inquiry's recommendations should be realistic in their ambition to address these barriers and should aim to propose measures which generate the greatest impact in the shortest time frame.

4.3 Intra-Industry Communication

Some aspects of the structure of the UK television industry do not encourage success in international markets. As we have identified, UK broadcasters are concerned with serving the UK audience, and UK producers are predominantly funded by UK broadcasters. Programme distributors can quite easily be omitted from the commissioning process. While the incentive structures in the industry will not change, improved intra-industry communication can ensure that opportunities to exploit UK programmes are taken where appropriate.

4.4 The BBC has made strides towards improving the lack of communication between broadcasting, production and distribution through the joint investment group scheme. *Teletubbies* was the first project to result from this internal communication process. Similarly, closer collaboration is taking place at Channel 4. We suggest that this approach should be adopted throughout the industry, including independents. ITV's fragmented structure, particularly the role of the Network Centre, does not support this approach. As a key commissioner of UK product, ways to improve communication should actively be considered.

4.5 UK audience taste versus the US

US drama dominates the international export market, and its style, presentation and formats tend to vary markedly from UK models. As noted in *Building a Global Audience*, the UK style can be interpreted by foreign buyers as 'too dark, too slow, unattractive, too gritty or socio-political' [(4)]. However, this style is driven by the tastes of UK audiences.

4.6 It is true that the UK's television market is not as uniquely commercially-focused as the US market. In the US, virtually all network programming is commissioned, scheduled and evaluated according to audience share within the 18-49 years demographic group – since this group is regarded as the most valuable to advertisers. Across the world, younger adult and child audiences are more receptive to the most valuable acquired programming than older audiences. The highest rating dramas and comedies on BBC1 and ITV are not in demand internationally, partly because, in order to gain a larger audience in the UK, these programmes must attract very large numbers of viewers over the age of 50.

4.7 However, even the most famous of US dramas and comedies do not outperform home produced programmes. UK audiences are inclined to watch UK programmes, with their particular 'gritty' or 'realistic' characteristics. What is more, when our

4. *Building a Global Audience*, p24, DCMS, 1999.

programmes are of the highest quality, international buyers appear to be less preoccupied with their grittiness. Neither *Cracker* nor *Prime Suspect* – both successful international sellers – can be described as light hearted escapism.

4.8 Developing the international business is important for the industry, but serving the UK audience is essential. Dramatic modification to the style of UK programming is not, therefore, a realistic aim. It is not just the UK that prefers its own programmes – this is true across all territories. Local productions consistently attract the highest ratings. Therefore, specific market tastes may better be overcome by producing specifically for international markets. The UK's production base may then be exploited without the overriding need to cater for the UK audience.

4.9 The UK's Scheduling and Commissioning Patterns

Scheduling and commissioning patterns in the UK present longer term barriers to our market position. The most valuable and highly demanded programming in the international marketplace is long running dramas and situation comedies of at least 13 episodes. The UK delivers short-running series (typically, of 4-6 episodes), and distributors often have to wait for series to accumulate over two or three years before taking them to the international market. The greatest barrier to commissioning longer runs in the UK is financial risk. If the commissioner invests in more than 6 episodes and the production fails to attract an audience then the remaining episodes may be shelved.

4.10 The factors that shape the UK schedule vary between the BBC and the commercial channels, but ultimately our broadcasters are all driven by the demands of the UK audience. However, our commercial broadcasters are beginning to move to a peak-time scheduling pattern dominated by longer-running drama and comedy series, interspersed by hugely marketable event programming (largely one- or two-part TV movies or one-off comedy films). Recent examples on ITV include *Hunting Venus*, *The Blonde Bombshell* and *Trust*, and on BBC1, *Bravo Two Zero* and *Jude*. Market intervention to shape the UK schedule would not be a sensible direction to take, particularly when the market is already starting to move towards more internationally-acceptable scheduling patterns.

4.11 UK Talent Agreements

Referring to the industry's talent agreements, *Building a Global Audience* noted that 'many distributors still feel that the present agreements, as compared with those operated in the US or Australia, for example, makes UK companies less competitive. We were not able to reach a firm view on this point, which requires further study'.

4.12 The Producers' Industrial Relations Services (PIRS) is responsible for negotiating talent agreements which provide the framework for engagement in virtually all UK films and well over 60% of UK television programmes. PIRS notes that arrangements for royalty payments, which generally facilitate sales, have been introduced into all talent agreements in the last decade and that, although there remains room for improvement (particularly in respect of the PACT/Writers Guild agreement), the basic structures of satisfactory agreement are in place.

4.13 However, PIRS believes that greater threats come from elsewhere. There are four specific areas for concern. The first two relate to the present status of non audio-visual rights clearance:

Music rights: copying rights, administered by the music collecting societies (MCPS, PPL/BPI and VPL) are a matter of concern. Many clearances have to be handled on an individual basis. Fees are usually territory-based and are calculated using ‘rate cards’ which have often been unilaterally established by the collecting society. The fact of the near monopoly power of the societies makes any negotiation on rates very one sided.

Archive footage and stills: factual programming, an area of strength for the UK, often includes substantial amounts of archive footage and stills. In most cases, usage charges are also based on limited clearance using territory-based ‘rate cards’. Many of these were devised some years ago and no longer reflect current market realities. The absence of a royalty-based option is a severe constraint.

4.14 These rights arrangements have not been designed with the international market in mind. They often impose prohibitive costs, acting as a disincentive to the export of UK programmes. Informing the appropriate rights bodies of the potential benefits of developing the international market could improve the position. However, the industry is faced with the uncertainty of the following two policy developments:

European Union ‘moral rights’ policy: the proposed implementation in the UK of moral rights for performers in audio-visual works may mean that performers will be able to object to certain treatment of their works, and in particular may be able to object to the substantial reversioning which is often necessary if a programme is to be sold to a secondary user.

Intellectual Property Organisation policy developments: the IPO may adopt the principle of broadcast rights for audio-visual performers. This could mean that, rather than relying on contractual rules, performers would have a legal right to ‘equitable remuneration’ for their work. This could leave all UK contracts open to challenge by the courts (and legal action would be more likely where productions were particularly successful).

4.15 These policy developments could present considerable hurdles to the international exploitation of UK programmes. While we recognise that it is essential that the rights of UK talent are protected, these new policies should not be allowed to develop to the detriment of our international position.

4.16 UK Talent Attitudes

We should also note that it is not just rights that impact upon our ability to produce programmes that will perform well in the international market. Much broader talent issues relating to the creative culture in the UK also play a part. In contrast to their counterparts in the US, writers in the UK are often unwilling to work in teams of more than two people, or to commit to writing more than six episodes of a drama or comedy, for fear of diluting the quality of writing. Furthermore, actors in the UK are less accustomed to the arduous marketing of programmes in the international arena that is commonplace to many US television stars. These cultural barriers to greater international selling success will not be easily changed.

5. MARKET TRENDS

5.1 Developments in the market place are broadly positive and give cause for some optimism. Historically, our export growth has outstripped the market and this trend is expected to continue, because:

there is a notable increase in the commercialisation of the UK networks, leading to the commissioning of programmes which are suitable for the international market;

with the arrival of digital television, a proliferation of channels is expected around the world. This will increase the demand for programmes; and

evidence suggests that bundled US output deals are collapsing as a result of the financial pressures on international broadcasters and the increase in local production capabilities. In this environment, international broadcasters are expected to 'cherry-pick' distinctive, high quality programming which is not available in their home market.

5.2 Running alongside these expansive opportunities, there will be pressures in the market place. Other nations – like the UK – prefer their own productions. Our European competitors, particularly Germany, have recognised this and are increasing their production investment. Not only does this mean less scheduling space for imported product, but an increase in the number of productions being sold on the international market.

5.3 Formats

To some extent, the further development of re-formatting and reversioning could counteract the impact of regionalisation. We are already increasing our presence in this market through the sale of formats such as *Who Wants to be a Millionaire?*, *Ready, Steady Cook*, and *TOTP*. The BBC and Granada have established GB Productions, a joint venture to develop formats for the US market. At the same time, independents such as Hatrick and GMG Endemol are having significant success in format sales. While formats are an important part of our industry, they do not optimise either the direct financial impact, or the indirect economic benefits, of exporting UK produced programming. For this reason, we have specifically excluded the pure formats market from our analysis.

5.4 Reversioning

Reversioning is relevant to this Inquiry as it is expected to play an increasing role in the tailoring of UK product for the international market. The re-shooting of the children's sequences in *Teletubbies* for every country in which the programme was sold was essential to its international success. If it is unrealistic to alter the style of

UK programmes, the reversioning of UK product can improve its international marketability. It is possible to re-format a programme's:

introduction;

narration;

music;

graphical presentation;

length.

5.5 We should be developing a more sophisticated understanding of how to reversion product for different markets. This will only come through training the production base in reversioning skills and through improving the industry's general understanding of the international market. Distributors' knowledge and skills should be fed back to producers in order to develop reversioning in the UK.

6. RECOMMENDATIONS

6.1 Our aim has been to propose a series of recommendations which are practical to implement, boost our export position and build the industry and its contribution to the UK's economy. As we have indicated above, this eliminates four fundamental issues:

the style of UK programmes: we are not going to change the taste of UK audiences overnight, and therefore we should not aim to alter the style of programming which appeals to the domestic market;

the UK scheduling pattern: we are not going to re-shape the scheduling pattern. This has developed in response to a complex matrix of requirements and may, over time, evolve to better serve the international market;

the creative approach in the UK: we are not going to dramatically alter the approach of creative people working within the industry, which has evolved in response to a set of characteristics and qualities unique to the UK;

the financial risk to the industry: unless the Government is prepared to offer grants to support the development of programmes targeted at the international market, it is improbable that UK commissioners will carry the additional financial risk when their target audience is in the UK rather than overseas.

6.2 We have not set out to instigate a radical shift in the industry's structure towards the international market. Our intention has been to suggest initiatives that will reinforce our international position, while not jeopardising the industry's ability to meet the needs of the UK audience.

6.3 With this in mind, the Right Product Group has highlighted the following areas for action:

i. Improved information availability;
ii. Training;
iii. Increased intra-industry communication;
iv. Awareness and recognition;
v. Influencing relevant policy developments;
vi. Improved UK film distribution;
vii. International channels;
viii. Production for the international market; and
ix. Support for specific genres.

Each of these is discussed in turn below.

i. Information

Improving the market information available to the industry

Although vital for the initial analysis of the market, the *Building a Global Audience* data provides only a snapshot of the market in terms of volume. If the industry is to make key decisions based on analysis of the market, more comprehensive survey data should be available. This should include market shares by value. **We recommend that an annual update of *Building a Global Audience* should be commissioned by DCMS and the BTDA.** This should be expanded from the current survey to include:

statistics by both volume and value;

secondary channels;

additional markets; and

a breakdown of exports by genre.

ii. Training

Training for the industry to increase understanding of product requirements for the international market

While the UK audience continues to take priority, it is unrealistic to expect considerable changes to the style of UK programming. However, we consider training to be a vehicle for raising the industry's knowledge and awareness and, where appropriate, for ensuring that international requirements are incorporated in the industry's output. In the short term, this will improve reversioning skills within the UK production sector. In the long term, the industry will learn from the positive elements of non-UK programme models.

We recommend a UK producers' training scheme. A programme of training for producers would allow for the transfer of knowledge of key export markets. We propose that the scheme should be jointly sponsored by key industry distributors and by the Government. The industry participants should then nominate one executive producer each to attend an annual training session and/or to participate in foreign placements. An existing training body such as NFTS or Skillset could facilitate this training exercise.

iii. Communication

Assessing ways of improving communication between commissioners, distributors and producers, including independents

Scheduling and commissioning patterns have been identified as major hurdles facing the export of UK programmes. Although the form of the UK schedule is moving in broadly the same direction as our major competitors, the lengths of commissions are unlikely to change while broadcasters continue to carry the risk. At present, there is little incentive for commissioners, distributors and producers to communicate and to identify areas for easy wins in tailoring programmes for the international market. Mechanisms for identifying such opportunities could ensure that, where appropriate, UK programmes take on styles and formats which will make them easier to sell internationally.

We recommend the adoption of systems to break down communication barriers between commissioners, distributors and producers. The industry needs to identify systems to improve its internal communication and to convey information on:

the demands of the international market;

the areas of compatibility with UK scheduling and commissioning patterns; and

the potential financial benefits of increased distribution.

Appropriate mechanisms through which to communicate, and also to motivate, should be assessed in the course of Phase II of the Inquiry in close consultation with the relevant parties.

iv. Awareness and Recognition

Raising awareness of the market by rewarding success and by circulating up to date market information

Although *Building a Global Audience* has begun to encourage the industry to look beyond its home market, the Inquiry should seek to build on this growing awareness. Although we consider that the implementation of our recommendations on training would be a first step in this direction, there is a clear need for a more general campaign that acknowledges success and keeps the industry informed about developments in the market place. The BTDA is an appropriate body to adopt this role with the support of DCMS and the industry.

We recommend that the BTDA should take this role in raising awareness with funding from the UK television industry. The BTDA's role should include:

organising an annual awards event for the best of UK exported programmes, which would be a real focus for the industry;

conducting regular seminars to inform industry executives of market developments, particularly focusing on our key competitors and on lessons for success; and

updating and circulating the *Building a Global Audience* data on an annual basis in conjunction with DCMS.

v. Influencing Relevant Policy Developments

DCMS should take on responsibility for informing the industry of relevant developments in non audio-visual rights

Talent agreements in the UK are broadly consistent with promoting international exports. However, developments beyond the industry are more likely to have a negative impact upon our international business. The European Union and the Intellectual Property Organisation are both proposing to shift the balance of power in favour of individual artists. This is expected to increase both the bureaucracy and the costs of selling audio-visual product overseas.

The present arrangements for the clearance of music, archive footage and photographs impose considerable costs on the distribution of UK programmes. This is particularly true of factual programming, in which archive footage and photographs play an important role. The music collecting societies (MCPS and PPL/BPI) also continue to restrict negotiations over music copyright rates. A co-ordinated approach to lobbying these organisations is required to ensure that the economic implications of talent agreements remain on the agenda.

We recommend that DCMS should develop an information strategy for non-audio visual policy developments. As the Government department representing the creative industries, we consider this to be a particular area of focus for DCMS. Our concern is to ensure that DCMS is fully informed of the ramifications of the rights issues under discussion. Therefore we propose that DCMS should nominate a team to be specifically responsible for this area. This team should:

liaise with representatives of broadcasters, producers, distributors and talent;

synthesize and distribute information on key rights developments;

communicate the implications of these developments to appropriate organisations with the aim of preventing detrimental shifts in rights law; and

actively monitor the efforts of the Government and the industry to ensure that proposals which are harmful to the UK's film and television interests are not adopted.

vi. Improved UK Film Distribution

Improvements to the UK's international film distribution infrastructure to reinforce the UK's cultural presence worldwide

Our television export position would be greatly improved by a stronger international presence in film. There are a number of measures that can be taken to assist the UK film industry. DCMS has already initiated specific programmes to support the production sector. However, the international distribution structure remains weak. Without consolidated UK distribution, it is difficult to develop the industry's position in the international market. The restructuring of the film funding sector currently under way presents an ideal opportunity to explore the most effective structure for distribution.

We recommend that the Film Council should explore the role of international distribution in reinforcing the UK film industry and that it should develop initial options for a more cohesive approach.

vii. International Channels

An assessment of the viability of establishing UK owned international channels

Although international channels are a valuable way of familiarising international audiences with our television product, few UK broadcasters have moved into this area. As we have identified, this is a business which requires high levels of investment. However, it is our view that the industry would benefit from a better understanding of the economics of the international channels business. Furthermore, it is likely that some degree of collaboration between broadcasters may be required to build a sufficiently large portfolio of product for an international channel proposition.

We recommend that Phase II of the Inquiry should conduct a more detailed assessment of the role of international channels for UK broadcasters. This should convey the outline economics of international channels with the aim of understanding why, with the exception of the BBC, no UK operator has made a major move in this area. It should also develop an initial working model for further analysis.

viii. Production for the International Market

Incentivising the production of programmes designed for the international market

The market barriers presented by the tastes of the UK audience could potentially be overcome by the production of programmes specifically for the international market. The production base needed to serve this market already exists within the UK. However, commissioners who shape the UK product specifically for the domestic market dominate the funding structure. This structure is unlikely to change in the medium term, particularly while we continue to structure the industry around its public service obligations. An artificial funding incentive is, therefore, required to encourage producers to develop ideas beyond the UK market.

We recommend a funding scheme for productions designed for the international market. Both Lottery funding and/or tax incentives could be provided to kickstart productions designed for the international market at the development stage. A Lottery funding scheme could follow the model used for film investment, under which the fund generates a return. Tax incentives could be provided to offset the cost of reversioning product or as a credit against production costs. Such a scheme should run for a limited period, and should be designed to build the production sector's contacts and its profile in the market. The viability of such a funding scheme should be assessed in more detail in Phase II of the Inquiry.

ix. Support for Specific Genres

An assessment of potential tax incentive schemes which could support the development of specific genres

The tax incentive schemes adopted in Canada appear to have dramatically strengthened the position of Canadian producers in the international children's programme market. Our analysis of exports by genre reveals that support may be necessary for production in the drama and children's genres. Tax incentives for these genres would assist the development of the UK's production base and would further the development of the industry and of its ability to meet the demands of international markets. Such a step would require a detailed analysis of the potential costs to Government and of any economic impact on the industry. However, if this option is not explored, the UK may be missing a valuable opportunity to build its international position.

We recommend that a further assessment of the use of tax incentives should be conducted as part of Phase II of the Inquiry. This should include:

further consultation with the government of Canada and with representatives of its television industry to assess the merits of the Canadian tax incentive structure;

liaison with the Treasury to consider the viability of taking such a scheme forward; and

wider consultation of the industry to identify the best overall framework for the tax incentive structure.

7. GROUP MEMBERS

The members of the Right Product Group were as follows:
Rupert Gavin (Chairman)
David Bergg
Alex Graham
Sarah Thane
Janet Walker.

8. ADDITIONAL RESEARCH

As well as considering the responses to *Building a Global Audience* and the information provided to DCMS by overseas contacts, the Right Product Group drew on further research on the world television market commissioned by BBC Worldwide from David Graham Associates.

ANNEX

THE RECOMMENDATIONS OF *BUILDING A GLOBAL AUDIENCE*

The provisional recommendations of *Building a Global Audience* were as follows:

The Government should recognise the importance of television exports to growth and the creation of jobs in the television sector. The success of the domestic television economy will assist the drive overseas, and international competitiveness should be taken into account when framing policies for the domestic market.

The Government and regulators should consider whether domestic regulation hinders export performance.

Consideration should be given to what incentives, including tax breaks, might encourage others, as well as broadcasters, to invest in original programme production.

The effectiveness of current support mechanisms for television exports should be assessed. An assessment should also be made of the subsidy and support mechanisms available to competitors to determine their impact on competitive performance.

Those responsible for negotiating talent agreements, such as those with writers, composers, performers and musicians, should be aware of their possible impact on export potential and encourage solutions that do not hinder that potential.

The UK industry should promote events and activities designed to explore the potential for programmes that will readily appeal to international as well as domestic tastes. Co-operation between producers and distributors should be encouraged, and the UK's unique scheduling patterns, which may constrain our exports, should be tested to see whether they offer real viewer benefits.

A single trade body, such as the British Television Distributors Association, should act as a focus for the UK's export effort. It should develop strategies to enhance the export potential of our programmes or formats, boost overseas investment in British programme production, negotiate talent agreements and lobby on behalf of exporters.

Official statistics on television imports and exports should be reviewed and overhauled to ensure that they are accurate, timely and comprehensive, reflecting the full complexity of the revenue flows associated with the television programme supply industry.

INQUIRY MEMBERS AND FURTHER INFORMATION

The Creative Industries Task Force Inquiry into UK Television Exports sat from 13 May to 23 September 1999. The members of the Inquiry, which was chaired by the Secretary of State for Culture, Media and Sport, were as follows:

Lord Alli (Managing Director, Carlton Productions Ltd)
Peter Bazalgette (Creative Director, GMG Endemol plc)
Graham Benson (Chairman, Blue Heaven Productions Ltd)
Maureen Beresford (British Trade International – observer)
David Bergg (Planning and Strategy Director, ITV Network Ltd)
Jules Burns (Managing Director, Granada Production Ltd)
Charles Caminada (Managing Director – Worldwide Distribution, HIT Entertainment plc)
Rupert Dilnott-Cooper (Managing Director, Carlton International)
Rupert Gavin (Chief Executive, BBC Worldwide Ltd)
Alex Graham (Managing Director, Wall to Wall Television)
Brian Harris (Managing Director, Pearson Television International)
Paul Howson (Head of Film and Television, The British Council)
Leslie Hill (Chairman, ITV Network Ltd)
Colin Jarvis (BBC Worldwide Ltd)
Jane Lighting (Managing Director, Minotaur International)
Ken Newnham (Deputy Director of Export Services, British Trade International – observer)
Sarah Thane (Director of Programmes and Cable, the Independent Television Commission)
Janet Walker (Director of Business Affairs, Channel 4 Television).

For further information on the Inquiry and this report, please contact:

Sean Coster
Broadcasting Policy Division
Department for Culture, Media and Sport
4th Floor
2-4 Cockspur Street
London
SW1Y 5DH

Telephone 020 7211 6541.

Department for Culture, Media and Sport
2–4 Cockspur Street
London
SW1Y 5DH

PP265 November 1999

DESIGNED BY **THE ATTIK** HUDDERSFIELD **LONDON** NEW YORK SAN FRANCISCO SYDNEY //13348