

FT Digital Media & Broadcasting Conference - Andy Duncan keynote
2.30pm, Monday 9th March 2009. Check against delivery.

Good morning.

A few weeks ago, on another speaking platform, I contributed an overview of the Government's Digital Britain action plan.

No-one here today needs another lecture on the transformative impact of digital. The accelerating shift from linear to on-demand. The imperative to transform strategies and structures.

There is concern that the cultural and economic benefits Britain has derived from its vibrant communications sector are threatened. The 2m jobs these industries support. Their £60 billion economic contribution. But Digital Britain also recognises the opportunity of greater global connectivity. Our infrastructure needs updating, but we have the creative skills, heritage and resources to grow Britain's share of global markets.

To achieve that British media companies need greater scale. Renewed commitment to innovation. Digital Britain aims to foster that. It recognises that systemic change of such seismic nature needs structural change to match. This is not a time for half measures. Or stop gaps.

Today I want to focus on the public service part of the Digital Britain equation. I want to demonstrate Channel 4 is in good shape to meet the challenge of systemic change. To show we will be a strong participant in any partnership that may emerge from the Digital Britain process. I also want to consider the funding gap opening up between the BBC and commercial broadcasters. I want to talk about the poetry rather than the

pipes. Because I believe that without a dynamic production base in Britain the full benefits of digitisation will not flow.

[PAUSE]

It has been a grim few days for commercial television in the UK with ITV and Five both announcing major budget and job cuts.

Channel 4 is not immune to the pressures affecting advertising funded media. The long-term structural shifts. And the short term effects of recession. But our position is much stronger than the headlines suggest.

We are enjoying extraordinary creative recognition. Broadcast's Channel of the Year. More RTS award nominations than any other channel. 9 BAFTAs. 8 Oscars. Slumdog Millionaire is having massive cultural impact across the world from an initial Film4 investment of just £1.5m.

We achieved a record share of peak TV viewing in 2008 – nearly 13%. Nearly 25% of net UK advertising revenues - another historic high. We are substantially outperforming the market in the first quarter of this year.

I take issue with comments made by BSkyB. Their numbers are inaccurate. Their analysis is wrong.

In the last five years, our investment in our free-to-air digital channels - E4, More4, Film4, 4Music - has increased our viewing share by a third.

They are now more successful than they ever were as pay-TV channels, when we got insufficient revenue from platform operators, including Sky,

to make any profits. They now contribute tens of millions to the bottom line each year. All businesses require investment to reach profitability. Recent investments in projects like 4 Radio and Kangaroo have been modest - a few million pounds of development costs.

Sky's proposal to transform our digital channels back to pay is self-serving. Like ITV suggesting that Channel 4 should stop selling advertising. Massive benefit to our competitors. The opposite for viewers.

As well as transforming our business model through innovations like our on-demand service, 4oD - which has served a quarter of a billion programmes - we're also transitioning our public service remit into digital media. In time, I believe our £50m innovation fund 4iP will be viewed as one of the most significant media innovations of this period.

We have cut headcount to 700. A third less than last summer. We've cut our cost base by £125m. We've husbanded cash reserves of £200m.

We are also adjusting remuneration to reflect new market realities. All staff have had their pay frozen. I and our Director of TV, Kevin Lygo have already volunteered to waive our bonus entitlement in 2008, of up to 30% of salary. We are now proposing a further substantial reduction, which will reduce annual earnings potential by over 35% in my case and 25% in his. I expect this to be formally ratified at our Remuneration Committee this month. Both Kevin and I feel this is the only responsible course of action, given the unprecedented market conditions.

As a public service broadcaster our schedule is not commercially optimised. We have scope to cut further to avoid falling into loss. We have no shareholders demanding profits.

Channel 4 *is* viable on a stand-alone basis. We are not in danger of going bust. We need renewed funding to allow us to maintain levels of investment in our public service content. To continue delivering the range and risks the market will not. Dispatches. The Devil's Whore. Red Riding. Christianity: A History. Big Art. Free Agents.

Channel 4 only exists to deliver public value. As we cut 'unprofitable' but publicly valuable programmes, it undermines our reason for being. It damages the production companies that thrive on our investment.

ITV and Channel 4 account for nearly nine of every ten pounds that commercial TV invests in British content, other than news and sport. That investment is severely threatened. The BBC may be left as the only provider of quality content across all genres. A weakened content base will be a weaker foundation to build Digital Britain.

[PAUSE]

The public do not wish that outcome. The Government does not. There is consensus on the need for competition to the BBC.

The Government recognises Channel 4's strong track record, creatively and commercially. It acknowledges that our institutional business model is challenged. It is committed to building on Channel 4's strong

foundation to fashion a second strong public service force. With a more sustainable business model. Supporting an extended remit.

It wants to explore if this can be achieved through partnership. Or merger. To that end, the Government has green-lit discussions between Channel 4 and BBC Worldwide. But it continues to explore other options.

Channel 4 represents a strong partner for any third party. But there is no benefit for us in merging with a structurally challenged commercial business. Propping up someone else's profits and shareholder dividends

Our board is open minded in seeking a partnership that makes strategic sense. That will underpin our investment in quality British content. And help us complete the transition to a public service digital media network.

We believe a partnership with Worldwide could deliver these objectives. It would be a partnership of public organisations. With complementary strengths. Both focused on delivering public service ends through commercial means. The combination being discussed would allow Channel 4 to remain commercially self-reliant. Independent.

We are encouraged by the progress of these negotiations. But Channel 4's ambition for this partnership is greater still. We hope the momentum will continue and the partnership will come to fruition on a big enough scale to support the role envisaged for Channel 4 in Digital Britain.

[PAUSE]

I believe this is one of those game-changing moments that British TV periodically experiences. The introduction of the licence fee. The advent of commercial TV. Colour. The launch of Channel 4 itself. The arrival of multi-channel television. Now, the creation of Digital Britain.

Britain's creative strength derives in part from disproportionate investment in TV content. We spend more per capita than anyone else. Significant licence fee income has been augmented and balanced by advertising revenues, of as least as much again, earned by commercial public service broadcasters. But that balance is disappearing.

Since ITV launched in 1955, the BBC's income from the licence fee has been broadly in line with UK television advertising revenues. But this week the licence fee rises again. Across 2009 the BBC's income from this source is estimated to grow to be in the region of £3.6 billion. That is forecast to be up to £1 billion more than the total TV advertising market. I understand, of course, the licence fee pays for many more BBC services than just its television channels. But such a substantial gap is highly significant and unprecedented nevertheless.

This disparity was unforeseen during the last licence fee settlement. That settlement included provision for cost and talent inflation and took account of forecast growth in TV advertising. Neither has materialised. As a result the BBC finds itself in a position of financial strength, compared to its main competitors, that no-one could have anticipated.

The BBC's guaranteed income alone is not a guarantee of quality. An increasingly dominant BBC threatens to diminish British creativity and, therefore, Britain's place in the global creative industries. Competition is

key to innovation, to cost-effectiveness and to quality. If the BBC is the only meaningful investor in original British content the flow of ideas will stagnate. Imagine the economic and creative impact if our best producers have a single buyer to market to.

The BBC has been slow to acknowledge the importance of a plural system. But it has now come to recognise the dangers of what is happening to the rest of market. The BBC Trust is on record saying that “a solution founded on co-operation and partnership” can generate new value for the system as a whole. The Trust has gone as far as laying down the criteria against which any partnerships must be judged. They must produce a sustainable outcome. Deliver demonstrable value. And, above all, represent the public interest.

The BBC Executive have brought forward partnership proposals. These proposals, at our estimate, may collectively be worth a few tens of millions of pounds for the industry between now and 2012. The BBC’s licence fee income during that period will be in the region of £15 billion.

These proposals are a welcome move in the right direction but they do not yet represent “demonstrable value” or “a sustainable solution”. To be blunt, the scale of what the BBC has so far offered the industry in terms of partnership is not sufficient. The BBC has enough resource to do more without damaging its own capacity to invest. Not just Channel 4. But children’s. Regional news. Online. Radio. This is not about plundering the BBC to bolster the profits of private shareholders. It is about bolstering a healthy domestic content base.

It is not counter-intuitive that the BBC should help sustain competition and Britain's creative industries. Having enjoyed a monopoly of advertising revenues, ITV was asked to nurture competition for the benefit of the public by underwriting Channel 4's budget for the first decade. The BBC has a similar responsibility, in the current environment, given its position of increasing financial dominance.

As the BBC Trust has acknowledged, public funding means the BBC has a responsibility to act in the interests of the public. Not just the interests of the BBC. The public pays the licence fee to watch TV, not just the BBC. They want quality and choice not just on BBC channels.

The effects of imbalance are already evident in radio, where the BBC enjoys a 55% audience share. An enfeebled commercial sector cannot compete. It is not so far-fetched to imagine TV going the same way.

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We have made progress in discussing partnership with the Government and the BBC Trust. But as things stand the proposals do not go far enough. They do not reflect the game-changing nature of this moment.

Having understood that the BBC must be at the heart of any solution, the Trust needs to ensure the BBC's partnership proposals go much further than currently envisaged. Not just with Channel 4. But with anyone willing to contribute to the broader competitive PSB ecology. And it needs to act quickly, before the system is damaged beyond repair.

The BBC must think more imaginatively. Why not offer cross promotion on its networks of other broadcasters' public service content? Or withdraw from bidding against commercial broadcasters for US film and TV? The £100 million a year the BBC spends with the studios could be reinvested in British content. The public would lose nothing.

Such suggestions may be uncomfortable for the BBC. But if they do not embrace thinking and acting on behalf of the system the consequences could be more uncomfortable still. When they next come to negotiate the licence fee in 2012 the system may be so out of kilter the Government may be tempted to reduce the BBC's resources. Resources that could have strengthened the system as a whole.

And that, I firmly believe, would be in no-one's interests – especially not the viewer's.

Thank you.