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REPORT

Competition, Cultural Variety and Global Governance: The Case of the UK Audiovisual System

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HWWA-Report

236

Hamburgisches Welt-Wirtschafts-Archiv (HWWA)
Hamburg Institute of International Economics
2003

ISSN 0179-2253

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This paper has been prepared within the Research Programme „Trade and Development“ of HWWA. It is a contribution to the Research Project „Competition, Cultural Variety and Global Governance: The Case of the Global Audio-Visual System.“ The Project is jointly conducted by HWWA and the Institute of International Affairs (IAI), Rome, and it is sponsored by Volkswagen Foundation.

An earlier version of the paper was presented at the International Conference „ Competition, Cultural Variety and Global Governance: The Case of the Global Audio-Visual System“ organized by HWWA and IAI in Hamburg, October 31 and November 1, 2002.

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1 INTRODUCTION

The main aim of this paper is to assess available policy options in the trade off between economic integration and cultural protection in the UK audiovisual sector. The central question asked by the paper is how might effective market access in the UK be best achieved without jeopardising cultural variety. This report examines briefly the development of audiovisual industries in the UK in the past 10 years, highlighting notable trends in legislative, regulatory, self-regulatory and administrative provisions as well as subsidies and tax allowances. This analysis will also allow us to contribute to a European database on audiovisual policies. Such analysis will help us to assess the potential impact of audiovisual policies on their economic and cultural targets. For the purposes of this paper, though, we will restrict our analysis to a narrow or traditional definition of audiovisual industries: radio and television broadcasting and film (EBU, 2000).

The paper is divided into five sections: three main ones plus a brief introduction and conclusion. Section 2 outlines the structure and organisation of the UK television, radio and film industries. In section 3, we discuss the main policy measures to support these industries. Section 4 analyses the effectiveness of these measures. The regulation of audiovisual industries in the UK includes a wide range of support measures all of which impact on both economic and cultural objectives. It is therefore beyond the scope of this study to evaluate all such measures but our aim, instead, is to consider some of the most important ones.

2 STRUCTURE AND ORGANISATION OF UK AUDIOVISUAL SECTOR

Television

Terrestrial Television

Until very recently, the UK television industry has enjoyed a high degree of stability and continuous growth. The sector consists of a mixed system of state-owned public service broadcasters (PSB) and commercial operators. The main PSB, the British Broadcasting Corporation (BBC) started television broadcasts in 1936 and introduced a second television channel in 1962 (when its two channels were re-branded BBC1 and BBC2). The corporation is funded by an annual licence fee levied on all households with a television set (yielding a total income of £2.5 billion in 2001). There is no advertising on BBC television channels or national radio stations, although the corporation does actively engage in commercial activities to supplement its income.

Commercial television in the UK was introduced in 1955 in the shape of a federal network of 15 regional companies - Independent Television (the ‘ITV’ network) - funded by advertising. ITV has always been required to provide broad range of programming including a daily news service and regionally produced programmes. Its *regional* public service remit has traditionally complimented that of the BBC’s as the *national* broadcaster. This broadcasting ‘duopoly’ lasted until 1982, when a second commercially funded, but state-owned company, Channel Four, was introduced. Its remit is to provide a broad remit of programming but with special emphasis placed on providing innovative and original programming to cater for minority tastes and interests. In 1997, a wholly commercially owned company, Channel Five, began broadcasting.

UK Pay-TV Sector

Satellite Television: BSkyB

Sky began broadcasting via satellite in 1989 and a year later took over its rival, British Satellite Broadcasting (BSB), to form BSkyB. BSkyB began the first UK digital television service in October 1998 and in 2001 switched off its analogue signals. BSkyB is part of the News Corporation group, a vertically integrated company. Unlike ITV Digital (which was awarded government-owned licences), BSkyB owns the digital satellite platform on which it broadcasts primarily its own channels. And through its subsidiary, Sky Subscribers Services Ltd (SSS), it sets the wholesale price at which rival channels (BBC, ITV, etc) may gain access to that platform (Wells and Brown, 2002). BSkyB profits for 2001 were up by 33% to £129m. The number of subscribers to its digital satellite channels currently stands at 6 million, paying on average £341 a year. Furthermore, the company confidently expects to attract some 300,000 households who formerly subscribed to ITV Digital, the terrestrial digital broadcaster, which went bankrupt in April 2002 (Wells and Brown, 2002).[1]

Cable Television

Cable television services in the UK began in the 1970s. The sector is currently dominated by two American-owned companies: NTL and Telewest. Their digital cable services were launched in 1999 and they are gradually phasing out analogue services. At present, the cable industry is also undergoing a major crisis of confidence. In May 2002 Telewest revealed it was making 1,500 workers redundant to cut its debts. NTL subsequently announced it would file for Chapter 11 (temporary) bankruptcy protection in the USA. NTL owes some £12 billion and is in the process of a major restructuring process. For its part, Telewest has debts of £5.3bn and its share price has fallen by 98 per cent since the dot.com collapse of 2000 (Brunsdon, 2002).

The two companies' problems stem primarily from investing too heavily in expansion of their networks without achieving adequate penetration and income levels. Investing massively in laying cable networks and buying up other companies gave NTL and Telewest an impressive infrastructure, but not enough income. Both have also suffered from integration problems associated with a programme of rapid acquisitions. Currently there is much speculation that the two companies, which operate in different franchise areas, may merge (Brunsdon, 2002).

As at September 2002, approximately 9 million households receive digital television services: around 35% of the total number of TV households in the UK. The UK is a world leader in terms of digital take-up. According to the Independent Television Commission (ITC), digital penetration in the third quarter of 2001 stood at 34.7% of TV households, with 22.5% of all TV households being digital satellite subscribers, 7.3% digital cable and 5.0% digital terrestrial (ITC, 2002). BSkyB currently has the largest share of the UK digital television market with 6 million subscribers. It is the Government's intention to cease all analogue terrestrial TV broadcasting at some point between 2006 and 2010 (UK Government Digital TV Action Plan, 2001).

The proliferation of television platforms and operators in the UK has had three principal effects. The first is that the UK television sector has undergone a process of rapid expansion in the past 10 years. The industry in 1999 had total revenues of Euro 17.6m, a rise of 96% since 1995 (Euro 9.0m). These figures compare extremely favourably with those of its major European partners, France, Germany, Italy and Spain where growth rates were 24%, 32%, 45% and 63% respectively between 1995 and 1999 (Radiotelevisione Italiana, 2001).

The rapid growth experienced by the UK television sector has stalled in the past year due to a downturn in advertising revenues and the failure of high profile media businesses, especially ITV Digital in April 2002. After several years of above average growth, total television advertising revenue fell by 7% in 2001 (ITC, 2002).

The second effect has been a continuous growth in pay-TV subscribers. The combination of falling advertising revenues and steady expansion in the number of pay-television subscribers has continued to shift the balance of funding and of

[1] A BBC-led consortium, Freeview, has since restarted a non-pay digital terrestrial television service.

economic power in the UK TV sector. In 2001, subscription revenues grew by 5% and accounted for some 32% of total income, whereas advertising revenue fell by 5%, taking its share of total commercial revenues to 55% (ITC, 2002). As is discussed in Sections 3 and 4 below, the growth of a secondary television market can be explained in large measure by a 'lighter touch' regulatory regime for new channels (including non-enforcement of EU broadcasting quotas).

The third effect is that there has been a greater fragmentation of the audience. ITC figures show that in 2001, channels that individually had less than 0.5% viewing share accounted in aggregate for around 12% of the total audience (up from 6% in 1997). By contrast, the aggregate share of viewing for the two most popular channels, ITV and BBC1, had fallen since 1997 from 64% to 54% by 2001. The viewing share accounted for by the five terrestrial channels as a whole has fallen from 83% to 80% (ITC, 2002).

Finally, while the last year has been especially tough for commercial broadcasting sector, data complied by the Office of National Statistics shows that in 2000 there was an increase in UK programme exports coupled with a 25% reduction in the value of imports from the US. Both of these factors have helped reduce the UK's deficit in international programme sales from £403m in 1999 to £188m in the year 2000 (ITC, 2002). However, this does not detract from the longer-term trend of a deteriorating trade position in television programming – see Section 4 below.

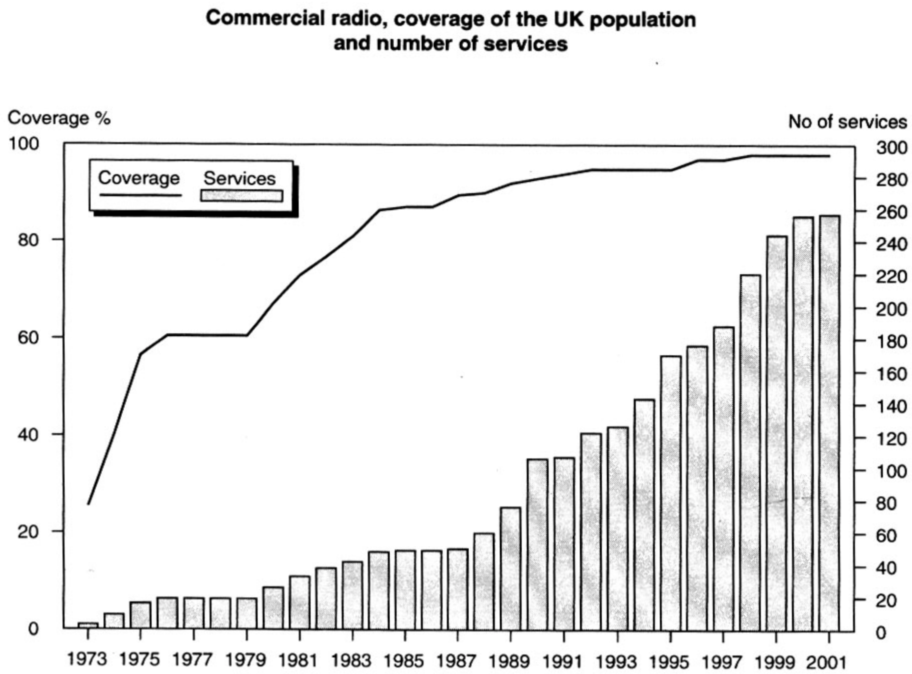
Radio

The history of the radio industry in the UK is unusual compared with most other countries insofar as that Britain did not have any commercial radio companies until the mid-1970s. A few successful pirate radio stations were in operation prior to the 1970s, but the UK Government did not officially award any licences to commercial radio broadcasters until 1973. So, until around 25 years ago, the only services available in Britain were BBC services.

The UK Government's protective attitude towards radio meant that, by the time that commercial radio licences started to be awarded in Britain, most other countries already had well-developed commercial radio industries. More importantly, the BBC's monopoly had created a number of obstacles for new commercial radio companies - audience loyalty to some of the BBC's services was exceptionally high and advertisers in Britain were in the habit of using commercial television, not commercial radio.

To make matters even tougher, when commercial radio operators were eventually allowed onto the airwaves in the early 1970s, it was initially on the basis that they had to comply with a variety of positive content regulations which would ensure that their services were of a high standard. So, 'independent' radio was also born into a very heavily regulated environment where, to retain a broadcasting licence, similar standards to those of the BBC were required.

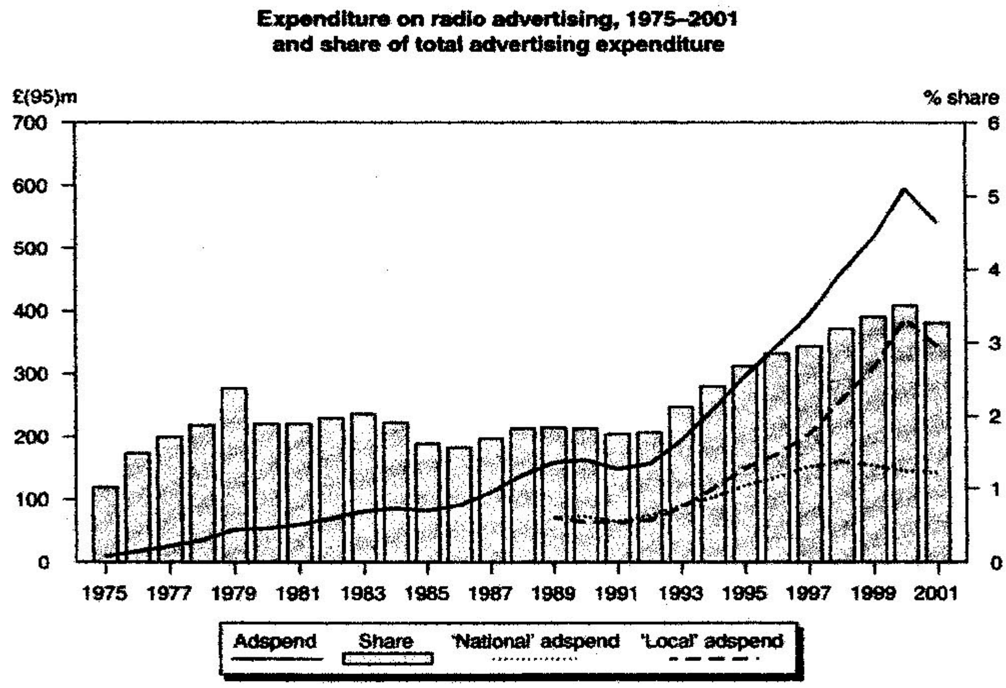
Figure 1 - Growth in number of commercial radio licences



Source: Advertising Statistics Yearbook 2002.

The number of new independent local radio stations has grown steadily throughout the 1970s, 80s and 90s and, as will be discussed below, initial expectations concerning content have since been relaxed. Until the early 1990s, all of the new licences were local and were funded primarily by advertising revenue. Advertising revenue grew especially strongly in the late 1980s and has continued on an upward trajectory since.

Figure 2 – Growth in radio advertising revenue



Source: Advertising Statistics Yearbook 2002

The fortunes of the UK commercial radio industry have improved considerably since the early 1990s, partly because the sector itself has been effective in tackling some of its initial problems: the difficulty of winning audiences away from the BBC; lack of reliable audience data; poor image with advertisers etc. An additional important boost for commercial radio in recent years has been the introduction of licences with larger transmission areas including, in some cases, national coverage. Larger audiences for these bigger national and also regional commercial stations, has meant better-funded rivals for the BBC - competitors who have been able to fund better quality services capable of taking audiences away from the BBC.

Figure 3: Radio listening shares

The radio audience-shares (%)

	1997	1998	1999	2000	2001
BBC: Radio 1	9.9	10.6	10.4	10.0	9.1
Radio 2	13.0	13.1	12.6	13.3	15.2
Radio 3	1.4	1.3	1.3	1.2	1.1
Radio 4	10.4	10.5	11.0	10.8	12.0
Radio 5 live	3.6	3.6	4.2	4.1	4.6
BBC local	9.6	9.3	10.7	12.0	11.3
Total BBC	47.9	48.4	50.2	51.7	53.4
All local commercial	39.5	40.0	39.0	37.9	36.8
Classic FM	3.4	3.7	4.2	4.7	4.5
Virgin AM	2.6	2.6	2.2	1.4	1.1
Atlantic 252	2.1	1.4	0.8	0.6	0.6
Talk Radio	1.9	1.6	1.6	1.3	1.6
Total Commercial	49.5	49.3	47.8	46.0	44.6
Other	2.6	2.2	2.0	2.3	2.1
All radio	100.0	100.0	100.0	100.0	100.0

Source: Advertising Statistics Yearbook 2002

In the mid-1990s, ILR build up its audience share from around 33% to in excess of 40% and national commercial stations, which had not previously existed, accounted for as much as a 10% share in total listenership in 1998. For a significant period between 1995 and 1998, commercial radio actually overtook the BBC in terms of audience share, but the BBC has fought back very effectively over recent years and, as at the second quarter of 2002, currently captures a 53% share of total UK radio listening.

The UK Film Industry

While the broadcasting industry has enjoyed progressive growth and development over recent decades, the same thing cannot be said for film in the UK. The film production sector in the UK is a cottage industry, small-scale and disaggregated, that has traditionally suffered from a combination of problems related to its size and structure. Since the 1920s, Hollywood imports – aided by greater economies of scale and scope - have been popular with UK audiences and this popularity continues today. A lack of vertical integration in the UK industry between production, distribution and exhibition sectors has contributed to the weakness of domestic film-making and to the prolonged domination of the UK market by the so-called Hollywood majors (BFI, 2002).

Expenditure on films – whether at the cinema box-office, the video shop or via subscriptions to movie channels - has grown steadily in the UK over the last decade or so and is currently running at around £3bn per annum. Cinema attendances, while remaining low by international standards, grew from 97m in 1990 to 115m in 1995 to 143m in the year 2000. The number of cinema screens in use has also grown significantly in the past decade. In 1987 there were 1215 cinema screens in the UK. In 2000, this figure had risen to 2954.

Investment in film production has also grown throughout the last decade. The total number of UK film productions increased from an all-time low of 30 films in 1989 to 98 films in 2000 (with a total value of some £825m). Nonetheless, UK-made films still account for only a relatively minor proportion of total expenditures on films each year in the UK.

While the number of films being made each year in the UK has increased substantially throughout the 1990s (largely fuelled by the introduction of lottery grants for domestic film-making), it is notable that fewer and fewer of these films are achieving significant or widespread distribution to audiences. In 1989, 28% of UK films were not released within a year of production. This figure rose to 42% in 1995 and had reached 60% in 1999. While more UK films are being made, aided by generous fiscal incentives and lottery funding, a higher percentage of those films remain unreleased despite, in some cases, enthusiastic reviews at private screenings (BFI, 2002).

Consequently, Hollywood's domination of the UK distribution and exhibition sector remains strong. As a recent Film Council report states, 'approximately 80 per cent of the UK box office is accounted for by US-distributed films with largely mainstream content' (Film Council, 2002).

3. MAIN POLICY MEASURES TO SUPPORT AUDIOVISUAL

Broadcasting

Broadcasting in the UK is generally a heavily regulated industry. The key regulators are the BBC itself (which is self-governing), the Independent Television Commission (ITC) which oversees commercial television and the Radio Authority (RA) which is in charge of the commercial radio sector. These bodies are responsible for translating the UK Government's wishes related to the audiovisual industry into day-to-day broadcasting operating policies. The broad framework they are working from is UK government legislation - in particular, the Broadcasting Acts (which apply to the commercial sector) or, in the case of the BBC, government policy papers such as the 1994 White Paper which then become written into the BBC's Royal Charter. UK broadcasters are also subject to EC broadcasting regulation as set out in Television Without Frontiers (TWF) Directives of 1989 and 1997, the requirements of which have been adopted through various domestic statutory and administrative measures.

The BBC's charter is much like a mission statement which sets out the Corporation's objectives. It is renewed every 10 years or so and the next review is due in 2006. So, the Government achieves change at the BBC by negotiating for various amendments to be made to the BBC's Charter each time it comes up for renewal. And it achieves change in the commercial sector by passing new primary or secondary broadcasting legislation – for example, the Broadcasting Acts 1980, 1990 or1996. A draft Communications Bill published earlier in 2002 is destined to become the next major piece of legislation governing UK broadcasting.

The key pieces of legislation over the last decade have been the Broadcasting Acts 1990 and 1996. Both Acts contain several measures that, either directly and indirectly, purport to support the audiovisual industry.

The 1990 Broadcasting Act contains a number of provisions designed to encourage a more competitive, market-driven commercial television sector including the introduction of a compulsory access quota for independent programme producers; a ‘lighter touch’ ITC to replace the earlier regulator; auctioning of broadcasting licences to the highest bidder; and the introduction of a new C5.

The access quota for ‘independent’ programme-makers represents an important boost for audiovisual content creators in the UK. Prior to the 1990 Act, there had been a tendency by UK broadcasters to discriminate, when commissioning the production of programmes to fill their schedules, against independent producers and in favour of their own in-house programme production departments. The 1990 Act imposed a 25% compulsory access quota for independent producers on the BBC as well as ITV. In effect, this obliged both the BBC and ITV to purchase some 25% of their output (excluding news, etc) from independent producers.

This requirement is clearly more onerous than a similar stipulation in the TWF Directive (under Article 5) that requires that European Union member states should ensure, where practicable, that broadcasters within their jurisdiction reserve at least 10% of their transmission time (or programming budget) for EC works created by independent producers. However, whereas the terms of the TWF Directive apply to all television services licenced for transmission within EU member states, the 25% access quota for independent producers set out in UK broadcasting legislation applies only to some – namely, the main terrestrial television channels.

One of the interesting features of current policy for the television sector is that, as far as regulation is concerned, the ITC recognises two different classes of commercial television broadcasters. Terrestrial channels (ITV, C4 and C5) are required through the terms of their licences to fulfil positive obligations related to the quality and range of their output whereas, by and large, ‘new’ cable and satellite broadcasters are not. Terrestrial analogue channels are must comply with expensive PSB-type obligations (e.g. the requirement to provide documentaries, arts and religious programming at given times etc) and are subject to a 25% compulsory independent access quota, but cable and satellite television broadcasters are not. Thus, support for indigenous and ‘quality’ audiovisual output is secured largely through requirements imposed on analogue terrestrial broadcasters as opposed to new cable and satellite broadcasters.

Following on from the 1990 Act, the 1996 Broadcasting Act provided some deregulatory concessions for terrestrial broadcasters but these focused on ownership and cross-media ownership rather than content obligations. Regarding ownership, the 1990 Act had contained some 50 pages of detailed restrictions on the holding of broadcasting licences, and concerning cross-media ownership between television, radio and newspaper companies. The 1996 Act overturned previous restrictions on ITV ownership, allowing much higher levels of ownership of terrestrial TV than before and, also, allowing cross-ownership between terrestrial TV and newspapers for the first time. The 1996 Act substantially de-regulated media ownership by raising the ceiling for ownership of commercial TV (from a maximum of 2 ITV licences to the new limit of 15% of the total UK television market) and by removing old restrictions on cross-media ownership between newspapers and terrestrial television.

The other important provisions in the 1996 Act were measures to introduce digital terrestrial broadcasting in the UK. In essence, the Govt was keen to see that British TV companies get a head-start in digital broadcasting. So, the 1996 Act provided for the award of 6 blocks of frequencies for digital terrestrial broadcasting; each of these blocks, which were called 'multiplexes', is capable of conveying at least 3 television channels. To encourage the existing 5 terrestrial analogue channels to transfer onto these digital frequencies, the 1996 Act reserved approximately one half of the new digital blocks for the use of these broadcasters. The BBC was allocated one whole multiplex while ITV, C4 and C5 got half a multiplex each. The Act provided that the remaining digital frequencies were to be awarded by the ITC to one or more new multiplex operators.

Aside from the Broadcasting Acts, another area of legislation with significant implications for trade and investment in audiovisual is that of intellectual property protection. UK copyright law is based on the Copyright, Designs and Patents Act of 1988. This Act introduced the concept of 'moral rights' into English law, i.e. the right to paternity and to protect the integrity of copyright works. However, whereas in other European countries moral rights are treated as inalienable (i.e. they cannot be taken away from the author or creator), UK copyright law allows moral rights to be waived (i.e. to be set aside or excluded by the author). Indeed, many employment contracts in the UK media sector now include standard clauses to waive or exclude moral rights.

This highlights an important difference of approach between the UK and its partners in Continental Europe. Whereas the rights of the author or creator are second to none throughout most of Europe, the copyright regime in the UK is at least as concerned with stimulating those industries that seek to exploit copyright protected works, including audiovisual producers. So, with a film or television programme produced in the UK, the author is defined under the 1988 Act not as the creator *per se* but as 'the person who makes the arrangements necessary for the recording or filming'. In other words, it is normally the producer or the production company and not the director and/or other key creative personnel that own copyright in audiovisual works. Consequently, by enabling audiovisual production companies to avoid messy multiple copyright ownership situations and problems stemming from authors exercising their moral rights, UK copyright law can be seen as conducive to the relatively high levels of international programming sales achieved by the UK every year.

A new Communications Bill containing some radical proposals that will affect the audiovisual sector was published in June 2002. The key proposal in the new Communications Bill is the creation of a single regulatory entity called 'OFCOM' which is to deal with content and economic issues for both telecommunications and broadcasting in the UK from now on. OFCOM will replace the existing plethora of regulators (including the ITC, the Broadcasting Standards Commission [BSC], the Radio Authority, OFTEL etc) and introduce a more coherent and co-ordinated approach to regulation of communications across different sorts of delivery platforms in future. This represents a fairly radical restructuring of regulation and makes the UK one of the first countries to institute unified regulation across communications infrastructures and broadcasting.

The new regulatory approach favoured by the Government can be summarised as 'competition plus' – i.e. normal competition law provides the basic bedrock but various additional measures will be built onto this to tackle aspects of the media business that are 'special'. The 1998 Competition Act and the monopoly provisions in the 1973 Fair Trading Act are key elements in the new framework for media regulation. On top of this, OFCOM will take responsibility for content regulation and spectrum management. In terms of broadcasting content, the Government proposes a new 'three-tier' approach with a basic tier of regulation concerning standards of taste and decency etc. to govern all broadcasters and with additional, more demanding, levels of content regulation that apply only to public service broadcasters.

On the issue of media ownership, the main proposals are, first, to now entirely get rid of the 15 percent upper audience limit for television broadcasters and to revoke the rule banning single ownership of the two London ITV licences and, second, to simplify or do away with the current ‘points’ system that limits ownership of radio broadcasting to a 15 percent share of commercial audiences. Not only does the Bill sweep away upper restrictions on ownership of television and radio, it also removes all curbs on ownership of UK broadcasting licences by non-EU companies or individuals for the first time.[2]

On cross-media ownership, rules that prevent newspaper owners with a national market share of more than 20 percent from also having a controlling interest in ITV are to be retained. However, dominant newspaper proprietors will in future be permitted to acquire Channel 5 or national radio broadcasting licences. In addition, restrictions on cross-ownership between television and radio broadcasters are to be relaxed at both national and regional level.

Film Industry

Compared with most other European countries, the UK government has tended to adopt a relatively ‘hands off’ approach towards support for the film industry. A handful of modest support measures – e.g. a voluntary levy on exhibitors known as the 'Eady levy' – which had existed earlier were done away with by the Conservative government in the mid-1980s. The 1985 Film Act sought ‘to set the film industry free’ by cutting back on the level of government intervention and encouraging commercial growth in the film sector (Hill, 1993). But a subsequent downturn in the UK film industry accompanied by heavy lobbying by filmmakers in the early 1990s provided the background for a reintroduction of some support measures over the last decade.

[2] Under the terms of the Broadcasting Acts of 1990 and 1996, non-EU individuals and bodies are generally disqualified from holding UK broadcasting licences.

Fiscal Measures

There have been moves in the past 10 years to reinstate tax incentives for the film industry that were abolished in the mid 1980s. These tax incentives have now been extended to all UK film and television productions in order to encourage investment. Such tax incentives include those introduced by the Finance Acts of 1992 and 1997. These are designed to encourage investment by UK, Commonwealth and European producers in UK film and television productions. The UK currently has various tax relief schemes for films advancing the time at which expenditure can be deducted for tax purposes (Treasury, 2001).

The main one, 'Section 48 relief', allows for 100 per cent write-off for tax purposes on completion of the production and acquisition costs of 'British qualifying' films whose budgets do not exceed £15 million.[3] This relief was introduced in 1997 and was originally intended to run for three years but will now apply to expenditure incurred between 1997 and 2005. This extension, announced in 2001, means that relief for expenditure on British films costing less than £15m between 2 July 2002 and 1 July 2005 will be available earlier (Treasury, 2001). British qualifying films with budgets in excess of £15million are entitled to deduct expenditure, on completion of the film, over three years – commonly known as 'Section 42 relief'. This relief applied to all British qualifying films before Section 48 relief was introduced.

The main aim of both Section 42 and Section 48 relief is to promote growth, employment, investment and opportunities in the UK film industry. It is also intended to facilitate structural change in the UK film industry to assist it to compete in the global market (Treasury, 2001). TV and film productions may also benefit from the Enterprise Investment Scheme (EIS), which allows investors who purchase up to £150,000 of new shares in UK-registered trading companies to claim tax relief against general income and capital gains.

[3] In order to qualify for these incentives, films and TV programmes must be certified as 'British' by the Secretary of State for Culture, Media and Sport under the 1985 Film Act. While the definition of a British film and programmes has been amended in recent years, the DCMS currently defines a film or programme British 'if 70per cent of the total production budget is spent in the UK and if 70per cent of the labour costs involved are spent on European and/or Commonwealth citizens' (Creative Industries Task Force, 2001: 24).

Lottery Funding

Another important public subsidy for the film industry comes in the form of lottery grants for UK film producers. Since its inception in 1995, the National Lottery, operated under government licence by Camelot PLC, has invested £11.1 billion in arts, sports and other cultural heritage projects and institutions across the UK (Camelot, 2002). Part of these funds, albeit a small percentage, have gone to help the film audiovisual industry. Between 1995 and 1999, £86m of lottery funds was invested in film, video and broadcasting projects (BFI, 2002).

The main impetus behind lottery handouts to the film industry came from a government advisory committee looking at film finance which reported its findings to the Department of National Heritage in July 1996. The committee, headed by Peter Middleton, argued that the obstacles to sustained investment in the UK film industry included lack of government subsidies, which were considerably lower than any other comparable film industry outside the US. At the same time, the Middleton Report also restated arguments that the industry was hampered by the fact that film-making in the UK tends to be organised piecemeal on a project-by-project basis by production companies without distribution arms. Only by addressing these structural deficiencies, so the report argued, could sustained and lasting growth be achieved.

The government decided that lottery funds, which were raised to help ‘good causes’, could help the long-term plight of the UK film industry. But instead of directing funds to single film productions, the government announced that three separate consortia of film-makers would be allocated funds to finance a series of film productions where arrangements were in place to distribute those film. These three consortia were awarded a total of £35m (BFI, 2002).

Responsibility for the distribution of lottery funds for film projects originally fell to the Arts Councils of England, Scotland, Northern Ireland and Wales. In England and Scotland, since 2000, responsibility for lottery distribution has been passed to the Film Council and Scottish Screen respectively. The largest distributor is the Film Council, with a budget of some £25m (which derives from lottery funds and direct state aid).

The Film Council was established by the Government in 2000 as a new strategic agency for developing the film industry and film culture in the UK underlining the importance of film as a key part of the UK's creative industries which collectively have a turnover of close to £60bn a year (Film Council, 2002). The Film Council has two key objectives:

1) developing a sustainable UK film industry and;
2) developing film culture in the UK by improving access to, and education about the moving image.

In order to encourage a more consistent flow of UK films attracting audiences in this country and all over the world, the Film Council has restructured public funding for film. One area of responsibility for the Film Council is to supervise the progress of large lottery awards made in 1997 to three consortia of filmmakers to encourage long-term growth and investment in the industry. The Council also runs three UK-wide development and production funds with a total annual budget of £20m. The Film Council has allocated funds to support training to maintain and develop the skills base of the film industry. The Council also provides funding for film activities including production through its £6m a year Lottery supported Regional Film Investment Fund for England (RIFE) (Film Council, 2002).

In Scotland, Wales and Northern Ireland the amount of lottery awards is much smaller (although the film agencies fulfil similar functions to the Film Council). In total, five Scottish films received awards of £0.5m in 2000 (BFI, 2002).

4. EVALUATION OF EFFECTIVENESS OF POLICIES

Introduction

Regulation and support of audiovisual industries in the UK encompasses an enormous scope and includes a wide range of measures which, to a greater or lesser extent, impinge on both economic and cultural objectives. It is beyond the scope of this study to evaluate all such measures but our aim, instead, is to consider some of the most important ones.

One theme that emerges clearly from analysing broadcasting policy in the UK over recent years is that it has changed in its general direction over the last decade or so. In the UK, there has been a distinct shift in government policy - a gradual moving away from the traditional 'PSB' regulatory model in favour of policies that encourage a more market-driven broadcasting industry. Britain is not alone in this trend and, indeed, this shift in approach may be seen as a natural response to technological changes that are opening up the television broadcasting industry globally.

Another noteworthy aspect of current broadcasting policy in the UK is the way in which the arrival of digital technology and the spread of pay-television have brought new regulatory problems to the fore. In recent years, much concern has focused on competition problems, such as, in particular, how to regulate conditional access technologies. Another question thrown up by the advent of digital - and the so-called 'convergence' of technologies between broadcasting and telecommunications - is that of who exactly should regulate the broadcasting industry in future? Should the UK carry on allowing a television content regulator (the ITC) and a radio regulator (the Radio Authority) to oversee the industry or should we now pass on responsibility to a general authority for telecommunications and television?

Focusing specifically on support measures for audiovisual in the UK, the main areas we will concentrate on evaluating are regulation of content, compulsory access for independent producers, ownership restrictions and direct support for film production.

Regulation of Content

Rapid commercial growth in the UK television, radio and film sectors has created pressures on the legislative, regulatory and administrative systems that govern the UK audiovisual industries. On one level, there have been clear deregulatory pressures to promote further economic and industrial growth (Film Act 1985; Broadcasting Acts 1990 and 1996). At the same time, successive UK governments have also revised legislative regimes to promote economic and cultural targets including, in some cases, measures to counteract the effects of greater commercialisation. For example, for the main terrestrial broadcasters, in the area of content regulation, the government has sought to:

- Revise controls over content standards, whether this is content defined as 'harmful' or content designed to maintain impartial, accurate news and current affairs reporting;
- Promote 'quality' content. This might be to promote a shared sense of national identity, to encourage diversity and plurality of programming, or to invest in home grown and high quality film, television and radio programming;
- Encourage terrestrial broadcasters to offer new channels and services in order to promote a healthy, technologically up-to-date industry. Although this has always been an implicit aim of regulation, the UK, line with other countries, is now making explicit its aims of promoting a modern industry in statutes and other regulatory measures. This is particularly evident in the development of technologies such as digital terrestrial television (McKinsey, 2002: 1-7).

At the same time, successive governments have taken the deliberate decision to exclude the satellite and cable television industries from many content regulation measures in order to promote economic growth in these nascent sectors. This was particularly evident in the 1990 Broadcasting Act. The effect of this policy is that traditional broadcasters are regulated far more heavily than their satellite or cable rivals.

This two-tier approach is also embraced in the approach taken within the UK towards implementation of the requirements of the TWF Directives. Theoretically, the stipulations set out in TWF – most notably including Article 4 (the 50% minimum quota for European made works) and Article 5 (the 10% quota for EC works created by independent producers) – apply to all television services licenced in the UK. In reality, the main five terrestrial channels are strictly subjected to even more onerous domestic UK licence requirements for indigenous and independently produced works while, at the same time, 'new' channels regularly fail to comply with even the minimum broadcast quota requirements set out in TWF.

The European Commission, which is responsible for monitoring compliance with TWF, recently found that the main five terrestrial channels (BBC1, BBC2, ITV, Channel 4 and Channel 5) broadcast an average of 64% and 68% European made works in 1999 and 2000 respectively – well ahead of the 50% European broadcasting quota. In the same period, the compliance rate for all 97 channels in the UK covered by Article 4 of TWF in 1999 was only 55% and, in 2000, the compliance rate for a total of 116 UK channels was down to 53% (CEC, 2002: 21).

The economic advantage to satellite and cable broadcasters of differential regulation is self-evident. Without detailed content restrictions, these broadcasters have been at liberty to concentrate on targeting lucrative niches or segments of the television audience. Indeed, the fact that cable and satellite services are regulated with a lighter touch (and, in particular, with flexibility over European quotas) has made the UK a favoured location for many new channels with ambitions to transmit across the whole EU (Brown, 1999: 23). Consequently, the UK television sector today has more channels offering a wider choice of content to consumers and a secondary broadcasting market is developing relatively rapidly in Britain.

The effect of expansion in the broadcasting sector is reflected in the UK's balance of trade in television programming over recent years. Recent statistics indicate that, while the UK is second only to the US in terms of the international programme sales it achieves, it nonetheless has suffered from an overall deficit in recent years. The explanation for this deficit lies in increased payments by new cable and satellite channels acquiring second-hand US programming over recent years (David Graham Associates, 1999: 10). Thus, although exports have been on a healthy and increasing trend, an increase in programming imports – facilitated by the UK's reluctance to enforce European broadcasting quotas on new cable and satellite channels - has outstripped these gains and left the UK with a deteriorating long term trading position in television programming.

The economic expansion of cable and satellite television in the UK has also, arguably, brought with it social and cultural costs. Social scientists have noted the new 'digital divide' developing between those who can afford access to new niche services, including pay-TV and the internet, and those who cannot afford or who refuse to buy into multi-channel TV and other digital technologies. In the UK, this second group, termed in media circles as 'refusniks', is calculated to total some 30 per cent of the population.

At the same time, terrestrial broadcasters are not immune to such developments. Intense competition for audiences has brought with it pressures to cut costs while maintaining quality levels. In the late 1990s, the BBC and ITV suffered programme budget cuts in order to pay for additional digital services. In ITV's case this went spectacularly wrong with the failure of its digital offshoot ITV Digital. One senior broadcasting executive calculates that programme budgets for TV documentaries – a key tenet of public service broadcasting - fell by 20 per cent in the late 1990s. Terrestrial broadcasters have also sought to hold on to market share and cut costs by lobbying government for further deregulation.

Compulsory Access for Independent Producers

As far as the UK is concerned, the most influential economic study of the media thus far - albeit focused on the television sector alone - was that carried out by the Peacock Committee (Peacock, 1986) which was to have a significant impact on subsequent UK broadcasting legislation. This report was the first major and comprehensive economic analysis of commercial and public sector television broadcasting in Britain and, prominent amongst its findings, was the view that the vertical structure of the television industry was in need of change. Peacock observed that the vertically integrated structure of Britain's traditional terrestrial television broadcasters meant that there was little effective distinction between the functions of, on the one hand, programme making and, on the other, television broadcasting. In Peacock's view, UK broadcasters' domination over the related but separate business of programme production created inefficiency and left little scope for independent producers (who could make programmes more cost-effectively than broadcasters) to compete and participate in programme supply. As a consequence, the Peacock Committee recommended that a compulsory minimum quota be imposed on broadcasters for a proportion of their programming output to be sourced from producers who were 'independent', i.e. not owned or controlled by a television broadcaster. This measure, subsequently put into effect via the 1990 Broadcasting Act, has introduced competition in programme production and thus forced UK broadcasters to restructure their operations so as to disaggregate programme making from broadcasting.

The success or otherwise of the 25% compulsory access quota for independent producers can be evaluated from a range of angles. It was clearly primarily aimed at economic targets of increasing competition, lowering costs and improving efficiency in the programme production industry. The measure also impinges on cultural objectives since, in effect, it serves to widen the diversity of sources of programming on the main UK television channels and therefore can be seen as promoting pluralism.

The imposition of 'independent' production quotas on UK terrestrial broadcasters has, indeed, engendered some measure of separation between the functions of programme-making and broadcasting within the UK television industry. An important distinction now exists between programme producers who, under UK legislation, are defined as 'independent' and those who are not. In the latter case (i.e. where the production company owns more than 25% of a television broadcasting company, or vice versa), the vertically-integrated production company is excluded from providing programmes which fulfil a broadcasters' 'independent production quota'.

Greater market access has undoubtedly improved opportunities for independent programme-makers and greater competition amongst suppliers has brought about a more cost-conscious and efficient use of production resources at the BBC and ITV. The compulsory access quota resulted in major restructurings and rationalisation, accompanied by 'casualisation' of programme-making personnel and streamlining of production resources throughout the early and mid-1990s. However, it is notable that, notwithstanding the 25% access quota, most UK television broadcasters *remain* vertically integrated with programme production.

The high level of cross-ownership between television broadcasting and programme production in the UK is indicative of the benefits of being involved in both distributing and creating television content. Vertically integrated production firms in the UK have a very significant advantage over the 'independent' production firm in terms of managing capacity efficiently. Vertical integration ensures a given level of demand from the related broadcasting operation whereas independent suppliers have to bear the brunt of unpredictable fluctuations in demand. Integrated producer-broadcasters also often enjoy informational advantages over their ‘independent’ rivals which can help them get positioned to secure an order for a new television programme.

However, the majority of programme production firms in the UK are, in fact, small independent companies (of which there are currently approximately 1,000). One of the implied aims behind the 25% compulsory access quota was to strengthen the position of UK audiovisual content creators and enable them to compete more effectively in international markets for programming. This aim has met with limited success since, although some important independents have now achieved an international sales profile, the most successful exporters of television content in the UK are still broadcasters such Granada and, in particular, the BBC.

A major problem facing the sector is that, bearing in mind the high cost of audiovisual production, the available market for television production in the UK (currently estimated at approximately £2.5bn) is not big enough to support the large number of production companies in existence. Only a handful of independent production companies have busy slates and are achieving a reasonable return from their business. The proliferation of independent producers contributes positively to diversity in sources of programming. Because of it, however, broadcasters tend to have the upper hand in negotiations about the terms on which programmes are commissioned and this serves to constrain the commercial success of independent producers.

It is worth acknowledging that, while vertical integration between programme production and broadcasting undoubtedly creates some important efficiencies and benefits, it is by no means the only route to success as a supplier. To the extent that there is open competition for programme commissions in the UK (and the 25% compulsory access quota has gone some way towards encouraging this), independent suppliers are demonstrably no less able to conceive and supply ‘hit’ programmes, and thereby to accumulate market power, than their vertically integrated rivals.

Changes in Ownership and Cross-Ownership Restrictions

The key concerns and objectives which the new ownership rules in 1996 Broadcasting Act were intended to address were outlined in the Green Paper on Media Ownership of May 1995:

‘Government has a responsibility both to promote *diversity* and choice for consumers and to set *the right framework for industry to flourish* … The main objective … [is] … to secure a plurality of sources of information and opinion, and a plurality of editorial control over them. Another important objective is to provide the environment to enable UK broadcasters, equipment manufacturers and programme makers to take full advantage of major market opportunities…’

‘…the existing structure of media ownership regulation, relying as it does on prohibitions which reinforce the traditional segmentation of the media market, is insufficiently flexible to allow media companies to exploit to the full the opportunities offered by new technologies…’

‘The Government has decided that there is a continuing case for specific regulations governing media ownership, beyond those which are applied by the general competition law; but that there is a need to liberalise the existing ownership regulations both within and across different media sectors.’

(DNH, 1995: 16; 20; 1).

The policy aims underlying these two key priorities may be categorised as, on the one hand, those of a socio-political nature - i.e. promoting plurality (or avoiding excessive dominance by any individual media owner); and, on the other hand, those of an economic nature - i.e. promoting efficiency and promoting the international competitiveness of UK media firms (or avoiding hindrances to the commercial success of industry).

The simultaneous pursuit of both of these broad objectives creates an obvious conflict - pluralism would require more effective restraints on ownership whereas industrial aspirations call for deregulation. Policy-makers at the Department of National Heritage (DNH) were charged with reconciling these objectives within a single regulatory framework. However, concerns about the Government's relationship with the press during the policy formulation period were uppermost in deciding how these conflicting aims were traded off against each other. Thus, the role played by wider political forces and by the conduct of the process of policy-making itself, as opposed to the pursuit of espoused policy aims, is a relevant consideration in evaluating the ownership policy changes introduced by the 1996 Act.

Although safeguarding pluralism was presented as the main priority, the new media ownership provisions drafted by the DNH into the ensuing 1996 Broadcasting Act actually offer *less* rather than more protection for pluralism. Not only were monomedia ownership ceilings raised, especially in the case of terrestrial television, but previous restrictions on cross-media ownership between national newspapers proprietors and terrestrial television were largely done away with (albeit that the two largest national newspaper owners, News International and Mirror Group Newspapers, are still prevented from expansion into terrestrial television). In effect, the new media ownership provisions allow for radio, television and newspapers in the UK to be supplied by fewer media owners than had previously, under the 1990 media ownership legislation, been considered an acceptable minimum. In practice, this has resulted in much greater concentration of ownership of UK terrestrial television and in some additional cross-ownership between newspaper and television providers.

The most important consideration guiding the re-formulation of media ownership rules in the 1996 Act would seem to have been creating the conditions for industry to 'flourish', i.e. establishing a framework which would strengthen the economic performance of the UK media industry. Indeed, many large media industry participants had called for a general liberalisation of previous media ownership rules, based on the argument that this would enable greater efficiency and thus an improved economic performance by the sector.

To assess the economic impact of the 1996 media ownership legislation changes, it is helpful to consider the relationship between *allowable* and *economically desirable* configurations for media firms. In order to fully exploit economies of scale and scope in the media, certain configurations are more desirable than others. Media ownership legislation in the UK, before and after the 1996 Broadcasting Act, places no particular constraints on very many potential configurations for a media enterprise; it has only ever affected levels of monomedia and cross-media ownership involving radio, television and newspapers.

The main impact of rule changes in the 1996 Act is to allow, for the first time, significant levels of cross-ownership between television, radio and newspapers and, also, to allow much higher levels of (terrestrial) television ownership than before. This has allowed new configurations to flourish, but not all such configurations are ‘desirable’ on the grounds of improved economic efficiency. The only change from previous restrictions which is unambiguously supported by the potential for additional economic efficiency gains is the relaxation of monomedia restrictions affecting the traditional sectors of the media. There is little or no economic evidence to support a case for liberalising cross-media restrictions affecting television, radio and newspaper.

This is because, on the whole, the economic performance of television, radio and newspaper firms does point to clearly identifiable benefits arising from expansion *within* each of these individual sectors of activity. On the other hand, diagonal cross-media expansion *across*, say, newspapers and television appears *not* to be well-supported by any specific economies of scope or inherent cross-synergies.

Very many combinations of cross-media ownership evidently *do* also give rise to synergies and other positive economic benefits for diversified media enterprises such as Pearson. Those combinations of cross-ownership that yield the most significant efficiency gains are those that allow either common specialised content or a common distribution infrastructure to be shared across different sectors or product markets. However, there is little compelling evidence to suggest that increased cross-ownership between *television and newspaper* operators - the other key deregulatory concession afforded in the 1996 Act - would give rise to any economic benefits. An analysis of historic trading figures provides no indication that those UK media firms involved both in television broadcasting and newspaper publishing have achieved higher operating profitability than rivals engaged in only one of these activities. In addition, few senior UK media managers seem convinced that there are any real operational synergies between television broadcasting and newspaper publishing. Consequently, the conclusion which emerges is that changes of ownership policy in the 1996 Act have served neither economic nor cultural/socio-political goals particularly well.

More recently, the UK government has set out plans for an even more radical liberalisation of media and cross-media ownership restrictions via a new Communications Bill (what is destined to become the Communications Act 2003). Its espoused plans to rationalise media regulation and ‘to safeguard the interests of citizens and consumers’ while, at the same time, making the UK ‘home to the most dynamic and competitive communications market in the world’ over coming years are commendably ambitious (DTI/DCMS, 2002: 3). Whether these diverse aims are compatible seems, once again, questionable. When proposed changes of policy are examined closely, it becomes clear that the objective of ensuring a plurality of different voices in the UK media is overshadowed by a desire to completely deregulate ownership.

Certainly, it is desirable that media ownership policy should encourage the economic strength of domestic media and communications sectors. Raising monomedia ownership restrictions will allow further rationalisation to take place but, as discussed already, whether combined ownership of newspaper publishing plus broadcasting interests confers any significant positive economic benefits is questionable. In any event, the most important public interest concerns tied up with cross-media ownership policy tend not to be economic ones.

Since a reliance on competition law has failed to prevent excessive concentrations of media power in the UK newspaper industry, it is difficult to feel confident that switching from upper ownership limits to a competition-based approach in broadcasting markets – as is proposed in the draft Communications Bill 2002- will achieve any better results in the television or radio sectors. A regulatory approach to ownership based primarily on competition and on economic and commercial considerations will not be adequate to the task of protecting the public interest in pluralism and democracy.

The Film Industry

As discussed above, Hollywood's domination of the UK distribution and exhibition sector remains strong and 80% of the UK box office is still accounted for by US-distributed films (Film Council, 2002). Indeed, government support measures for UK-made films industry via lottery funding and other fiscal subsidies appear to have made little or no impact on this trend.

Figure 5: Growth in UK film production

Year	No. of Productions
1990	60
1991	59
1992	47
1993	67
1994	84
1995	78
1996	128
1997	116
1998	88
1999	100
2000	98
2001	96

Source: Screen Digest/Screen Finance/bfi

On the one hand, there is general recognition that subsidies have helped the state of UK film production. More films are being made in the UK now than was the case 10 years ago. In 2000, for example, foreign investment in UK film production activities amounted to some £500m. This has encouraged some calls for additional subsidies and new support measures to add impetus to the current development of the UK distribution and exhibition sectors (Film Council, 2002).

On the other hand, there has also been fierce criticism of the ways in which public money is currently spent. Some commentators have noted the high number of poorly scripted films receiving lottery funding and which, unsurprisingly, have never made profits or even been distributed (Film Council, 2002). To many commentators, lottery money has been squandered on bad films. Others have noted the slow progress made by the three consortia with giving large lottery handouts, although it is too early to judge the success or otherwise of these companies.

There has also been widespread confusion about the main *raison d'etre* for lottery aid for the UK film industry. The National Lottery was originally set up to help support 'good causes' and to finance community projects. Arguably, this remit was extended to film in order to finance projects that would not otherwise be made, and which promoted specific cultural aims (whether linguistic, national or minority cultures). The decision in 1997 to disseminate lottery funds via the four Arts Councils seemed to endorse the view that the purpose of lottery support was to promote cultural objectives. But when, in 2000, responsibility for lottery distribution was passed to the Film Council and Scottish Screen, the government announced that these two agencies would have a more explicit economic remit to promote industrial development of the film sector. This was widely seen as a U-turn, with cultural objectives being relegated in favour of economic priorities.

Lottery and fiscal funds may have helped the production sector, but the distribution and exhibition sectors are still weak and the film industry remains disaggregated. Projects are still, by and large, organised on a piecemeal basis without distribution deals and, in this respect, the UK film industry remains a cottage industry. Notwithstanding the arrival of lottery funds, the overall level of public funding support made available to UK film producers remains modest by international and especially European standards.

5 CONCLUSIONS

As discussed in Section 3 above, regulation of audiovisual industries in the UK covers a wide scope and embraces a range of support measures which, in one way or another, impinge on both economic and cultural objectives. The UK government has also instigated and amended a number of support measures aimed specifically at the film production sector. For manageability, this study has concentrated on four of the main policy areas where support for audiovisual has impacted on economic and cultural aims - regulation of content, compulsory access for independent producers, ownership restrictions and support for film production.

The pattern which appears to emerge is of an approach which can be described as broadly supportive but, by comparison with other European countries, is neither radical nor strongly interventive. The UK government has sought, where possible, to encourage the development of market led and commercially-oriented audiovisual content producers as opposed to protected or subsidy-driven entities. Nonetheless, some significant interventions have been made, for example, to boost the status of 'independent' television producers and to try to address structural (disaggregation) problems afflicting the UK film production sector.

Inevitably, conflicts emerge between securing social and cultural goals associated with audiovisual media such as ensuring high quality and sustaining a diversity of voices and owners and, on the other hand, the desire to remove regulatory interventions that may stifle or impede the industry's commercial and economic development. Contradictory impulses are clearly evident, for example, in the approach adopted in the UK towards deploying lottery funds to support film production. The emphasis placed on content regulation in the forthcoming Communications Bill testifies to the ongoing special status accorded to audiovisual and broadcasting by the UK government. Nonetheless, as discussed earlier, the general drift of audiovisual policy over the last decade has been and still remains deregulatory and in favour of measures that encourage a more market-driven sector.

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