Digital division or digital multiplication?

Andy Duncan speech to NESTA - embargoed until 8.45am, 15.01.2009

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Good morning.

Let me start by thanking NESTA for hosting this event. With their leading edge work on the relationship between the creative industries and the wider economy, and in view of their relationship with us at Channel 4 as strategic partners, this is the best possible venue for what I want to say this morning. And let me also congratulate NESTA's Chairman, Chris Powell, on his richly deserved knighthood, a recognition of his immense personal contribution to Britain's creative industries and the policies that have helped to grow them.

Nobody can deny that 2009 promises to be an interesting year. The recession is deepening and prompting some radical re-thinking of the balance between public benefit and private gain in the way we manage our affairs. More fundamentally, we can see that the balance of economic power in the world is shifting away from a handful of states on either side of the North Atlantic, and the global economy really is becoming global.

This new global economy is not just about the flow of goods and finance around the world; it's about the flow of ideas - of music, images, fashion, styles.

Here's an illustration of the point. A film made by a Scotsman, set in India, with a star who is of Indian heritage but has lived all his life in the UK, with a script which is almost as much in Hindi as in English, wins four major awards in the United States.

That's globalisation. The film, of course, is *Slumdog Millionaire* – winner of four of the six Golden Globes won at the weekend by Film4.

And if you dig a little deeper into the story you quickly realise that the basis of that film, the TV show *Who wants to be a Millionaire?* has itself been a global

phenomenon and that, too, was created in the UK - by an independent television production company.

Britain may not be selling goods in the way that it used to but we are certainly selling ideas, creativity and imagination. They are the natural assets we're going to have to rely on once the oil's gone!

And with those ideas, we sell values too. In a world in which the flow of ideas easily metamorphoses into a clash of ideologies, that is hugely important.

Creative businesses are a very significant part of our economy. But their significance doesn't stop there. They carry social and cultural weight too. I'm proud of Film 4's six Golden Globes this year and the five Oscars in the last four years and the mass of awards our films have won around the world. But I'm also proud of a series that we've got going out at the moment on Channel 4 about Christianity: eight programmes, each one representing a particular and highly personal view of Christianity by someone of one faith or another faith or of no faith. A classic Channel 4 approach – alternative, original and absolutely relevant to some of the most urgent and profound issues that confront the world today - the kind of programme which makes a genuinely important contribution to public debate and public perception. But also, the kind of programme that the market, left to itself, would not produce.

My intention this morning is not to do a promo for Channel 4, but I do want to talk about the wider media ecology of which it is a part. Two major reports will very soon be shaping the future of media in the UK – the government's proposals for Digital Britain and Ofcom's Public Service Broadcasting Review. You may feel the future of Britain's media doesn't even rate a blip on the radar screen compared to the momentous events unrolling across the world, but I want to try to put the one in the context of the other and to argue that the government's decision to map out a route to a fully Digital Britain could prove to be one of the most important elements in deciding how our country fares in the future – not just how it contributes culturally and creatively to the rest of the world, but how it competes economically in the turbulent times ahead.

No doubt there will be tough decisions that have to be made on the way and no doubt there will be intense debates in which all of us who work in the media will fight our corners as hard as we can. I certainly intend to fight mine.

All the more reason, then, to use this moment at the beginning of the year to stand back and attempt a broader view. Television executives (at least those of us who work for public service broadcasters) repeatedly tell each other that our audiences are citizens as well as consumers. Well, *we* are citizens too, so let us temporarily lay aside our company loyalties and look at Digital Britain through the eyes of citizens.

Let me start on a personal note. I have spent the whole of my working life in the creative industries. For the first seventeen years I worked at Unilever in a series of jobs that were as commercially challenging as they were creatively rewarding. But eight years ago I found myself at an interview for a job at the BBC. I had been running a major part of a global business. What persuaded me to go back to what was essentially a marketing job was, if you like, the higher purpose that I felt the BBC epitomised with its powerful ethos of public service.

And I'm glad I made that decision. I have to say I am proud of the contribution I made in my time there and one of the highlights was driving forward Freeview, an initiative that used the tools of the market to deliver something of broader cultural and social value and, in the process, has helped to shift the values of public service broadcasting into the digital age.

Then four and a half years ago I found myself at Channel 4. I had worked for Unilever – with all its commercial dynamism. I had worked for the BBC - with its public ambitions completely insulated from the harsh rigours of the market. But what I found at Channel 4 was, if you like, the best of both worlds, a synthesis of the disciplines of the market woven together with the ambitions of public purpose.

For me that is a concrete expression of what Britain has done so well for the last half century in managing and regulating its broadcast media – the best of market forces combined with enlightened public intervention.

Excellent as it has been, that system is now on the point of collapse. But at a moment when the government has committed itself to think radically about shifting Britain into a digital future, at a moment when around the world governments and opinion formers are rethinking the balance of private gain and public benefit, and at a moment when the globalisation of ideas and values is matching the globalisation of trade and finance, this surely is the time to think about how we might re-boot a system that has served Britain so well; how we might take the logic that has made a success of Channel 4 and apply it to the much bigger picture of Britain's digital future.

What I see every day at Channel 4 is that we don't just reflect the contemporary culture of Britain – we help to shape it and articulate it. That makes us much more than 'just another business' – and the same is true of much of the rest of the creative sector. The music industry, the advertising industry, architecture, games, fashion, film – they all help to define who we are. They form a vital part of our national DNA and that's what makes them so special.

As our economy comes under pressure so too, of course, do the creative industries and some people are already keen to dismiss them as nothing more than froth that will be blown away by the harsh wind of recession. They say we've now got to focus on 'the basics', get back to focusing on the 'real' economy, re-build our infrastructure. But that's not going back to the real economy – that's just going backwards. The creative industries are an integral part of the real economy. More than that; in a knowledge economy they are one of the fundamentals. That is why every other dynamic economy in the world, from China to Finland, is now striving to maximise the value of their own creative industries, and very often entertaining much higher ambitions than we do.

Exactly this point was made in a hard hitting NESTA report from a year or so ago which drew attention to the fact that just as politicians had learnt to reel off the

mantra of creative industry statistics – the 2 million jobs, the £60 billion of value to the economy, the growth rate outstripping the rest of the economy - we were beginning to lose leadership and global market share. The report identified key issues that were contributing to that trend: the lack of scale of most businesses in the creative sector; their difficulties in accessing markets and their lack of innovation in responding to structural changes in the industries themselves.

What was true then remains true today. And we can use the opportunity of the Digital Britain report to consolidate and strengthen our whole creative industry sector. Channel 4 itself is a great example of how a public policy intervention enabled a raft of small independent production companies to grow, in just 25 years, to become the most dynamic and creative source of TV programmes and formats anywhere in the world. What's needed now are equally imaginative solutions for the creative industries of today.

Completely out of character, I've found myself cast in the role of Mr Pessimistic, simply because I've consistently warned that there's trouble ahead. Now the trouble has arrived, I find myself in the much more agreeable role of Mr Optimistic – I firmly believe there's a way through.

When resources are tight, all our inclinations are to pull the corporate wagons into a circle and fight to defend our own vested interests, but that is exactly the time when we need to be at our boldest and most imaginative.

Digital Britain, then, is about a lot more than the domestic problems of the public service broadcasters. It's about how Britain is going to deploy the assets that we have and build the skills we need to play our part globally. Digging our way out of the present recession is not going to be a simple matter of putting things back together just as they were before. Quite the opposite; the reality of structural change must push us towards genuinely fresh and radical thinking. To be blunt – when the scale of the crisis propels government into nationalising banks and suspending the normal rules of competition law, to find ourselves discussing whether or not to put more computers in public libraries or tinker about with the

TV licence fee is not an acceptable scale of vision. Let me set out where I think we are today on the road to that future.

First, convergence is finally arriving. We are at most a few years away from fully converged boxes that will allow us to access whatever content or services we want on whatever platform we choose.   As we move into an almost completely wireless world that, too, will impact on how we use the technology in our daily lives, and in our working lives.

Second, we are no longer only talking about 'content' in the conventionally understood sense, but a rich and complex mix that includes traditional linear content but also includes a growing range of services, networks and tools that allow users to build networks and services of their own design. The online world is not going to kill off conventional TV. The two will co-exist. That's the norm with new technologies – look at the way video is one of the driving forces of internet use. But it seems to me significant that at Channel 4, as our big £50 million 4IP project gets under way, what is mainly being commissioned is not content in any conventional sense but tools and content that enable the public to do things online which at present they are not able to do.   4IP isn't a digital production studio so much as a digital machine tool factory – helping equip Britain with tools for 21st century living.

Let me give you an example of what that could mean. For the last perhaps 150 years, journalists, the so-called Fourth Estate, have been society's flag carriers in holding those in power to account. The online world is now generating tools which put that power in the hands of everyone, and just at a time when the business models that have sustained traditional journalism are under as much strain as those of the television world. Bill Dutton, the Director of the Oxford Internet Institute, calls this shift the rise of the Fifth Estate.

Or I could mention two services with which 4IP is engaged. One, Patient Opinion, set up by a former GP in Sheffield, lets hospital patients and visitors share feedback on their experience. Another, Talk About Local, will equip people in

150 of the most deprived areas of the country with skills to launch and maintain sites aimed at improving their local environment. There are dozens more.

Third, the fundamental shape of the industry is changing.   The consolidation of ownership in traditional media has been a source of public concern and government action around the world for decades.   But that concentration of power is completely overshadowed by a parallel universe of companies whose speed of growth and value is truly mind-boggling. Social networking sites may feel as if they are cosy new community assets – virtual commons where people can meet together without let or hindrance. But the ISPs and other service companies that own them are made hugely powerful by virtue of their reach and by the fact that they know more about each of us than the East German Stasi ever dreamt might be possible.

And something else differentiates these vast new corporations from traditional media businesses – they invest massively in providing services, networks and tools. But they do not invest in conventional quality content. They don't see it as part of their role, any more than a telephone company does. But that raises the question of where that content will come from in future. Because there's another dimension to this new order of business and it concerns the flow of revenues.

Earlier this decade the television advertising market in the UK peaked at over £3.5 billion. The majority of this was re-invested in new content, overwhelmingly by the commercial public service broadcasters.   This year the value of that market is likely to be less than £3 billion; in other words, while the economy has grown, it has shrunk. Ten years ago the online advertising market barely existed. Today it is worth about the same as the TV market almost £3 billion. And here's the crunch: In the old TV world, the ad revenue stayed within the UK, even if it was for an American firm like Heinz. In the new online world the bulk of the ad revenues – over £2 billion of that £3 billion - goes straight back to the US and very little of the entire sum finds its way into UK content production.   Also, although subscription revenues have grown to over £4 billion, most of this goes into technology, platform development, sports and film rights and profits. A very

low percentage is invested in quality content production, and certainly not enough to offset the issue above.

Channel 4 has managed the impact of this digital migration of audiences and revenues better than most media businesses. We've bucked the trend of terrestrial television and grown our audience. Our 2008 peak-time share was an all-time record. We increased our share of the advertising market from 20% to 24% in five years. At the same time we've been winning more awards than ever before – at the Royal Television Society, at the BAFTAs, at the Golden Globes, at the Oscars. These are not the signs of a failing business - there is no question of Channel 4 going bust. But our capacity to invest in quality British content - particularly traditionally public service genres that audiences value but the market ignores as loss making - is severely pressurised.

In this situation to present further consolidation of TV broadcasters as a solution does not even get to the starting line. It is penguins crowding together for safety on a rapidly melting ice floe. ITV has been arguing consolidation as the answer to all its problems for the past twenty years and, to be kind, it has not proved to be a very successful strategy. It is trying to fix the problems of the future with the solutions of the past. The blunt fact is that the world has changed and the UK domestic advertising market can no longer sustain the flow of high quality TV content that British viewers have enjoyed for the last half-century. To continue the bird theme, that parrot is, if not deceased, then at least terminally ill. We have been carefully considering all options for Channel 4's future funding. And for the avoidance of doubt let me be absolutely specific on one point. It makes no sense whatsoever to imagine that merging a not-for-profit publicly owned broadcast business with a for-profit, privately owned broadcaster is going to solve the fundamental structural problems we are all facing. Mixing oil and water doesn't work. It just makes a mess.

The way forward for UK content is to find new sources of revenue and, in a global market in which UK content enjoys an already high reputation, part of the solution must be to raise our game, throw away the parochial blinkers of the past and embrace the fact that we are operating in a global market.

Let me add one other point. Securing rights is, of course, an enormously significant issue - for Channel 4 as for every other broadcaster. But ownership is a system for dividing the cake – it does not grow the cake, and growing the cake is what we need to do and where we should be focussing our efforts. Otherwise we face the hideous prospect of our grandchildren complaining that the only thing on TV is repeats of Porridge and Dad's Army.

Fourth, the digital divide is no longer some potential problem for a special unit in Downing Street to worry about – it is a growing reality that affects us all. Poorer households, older people, disadvantaged communities are all getting left behind and while that has a direct and damaging impact on them it has a wholly negative impact on the rest of society, too. It holds back the real potential for many commercial services. It stops government from interacting as effectively with citizens as it could. It impacts on the way in which schools engage or fail to engage with pupils, even the way in which parents and children engage or fail to engage with each other at home. Nor will it be resolved by market forces alone, any more than the crippling impact of illiteracy on the growth of our economy and society in the nineteenth century was resolved by market forces. Both require public policy and public intervention.

None of these factors is unique to Britain. But two others are. The first is that for reasons of our cultural heritage, our language and a long history of generally benign public intervention, we in Britain are exceptionally good at creating high-quality content. Let's acknowledge that as a priceless national asset.

The second factor which is very particular to our country is that we have a system of media regulation which has harnessed the driving energy of private business and the power of public investment in a more effective way than any other nation. We all can - and do - find much that's wrong with it, but I don't suppose any of us would disagree that the system as a whole has serviced audiences brilliantly well. Now that whole system hangs in the balance and we have to decide if we are going to tamper with it a bit until it finally fails or radically re-engineer it so that it's properly fit for the future.

So – the big questions for Digital Britain seem to me to be these – how do we make sure that the digital future is genuinely inclusive?   How do we stimulate the quality and range of services and content that mean we maximise the potential benefits of digitisation? And how are we going to find the investment we need to produce that range of services and content?

The interim report of Digital Britain will soon be published and I want to end by raising three big issues that I hope will be reflected if not now then certainly in the final report later this year. I'm not presuming to set myself up to make government policy. But I do believe that these issues are some of the necessary boundary posts within which to frame any serious policy discussion, and I hope they are a useful contribution into the debate. All three of them will be readily recognised here at NESTA because all three are dependent for success on a blend of private entrepreneurialism and public policy action.

The first is that we must have universal access to broadband services. At the moment we rank fifth of the OECD countries for access, but in terms of speed we are some considerable way behind countries like Korea and Japan.   If we are to be a fully digital society, then every citizen must be able to participate. Anything less would be an implicit denial of full citizenship to some.   For a household to be online is becoming as essential to participation in the life of society as having a TV and a phone.   And TV and phone are probably most important to those who are most disadvantaged.   The same should be true of broadband access.   In any case, the more universal a network, the greater its value. Google, Yahoo, You Tube, Facebook, Bebo – they know that very well. It's even more true in a wider social sense as a common unifying element of citizenship. And while many people - perhaps most people - will want to top up any basic provision by paying more for hi-speed or specialist equipment or content and services, just as they do with television today, access itself should be a basic right for everyone.

Universal access is the essential foundation of Digital Britain but by itself it is not sufficient. As every cable operator has found to their cost, access to a service is not the same thing as take-up of that service.   So the second key factor is to

stimulate demand and here the best way forward must be a combination of public policy and private provision. Commercial services will be the core – entertainment, information, financial services, retail, business-to-business services, and there are already plenty of such services today. We still have a very long way to go, however, before we are using the full potential of the online world to deliver public services in a more effective - and cost-effective - way.

For example, when by the government's own admission only 20% of schools have really 'got it' in terms of exploiting digital technology to drive next generation learning, we need to ramp up the integration of digital technologies with our formal and informal learning services. Media literacy is as essential to a full and productive life today as basic literacy was in the world of our grandparents.

In health, the huge success of NHS Direct and online appointments booking for hospital services is only the beginning. GP surgeries and hospitals will always be the heart of a national sickness service but, as the current anti-obesity campaign demonstrates, health is becoming more and more a question of life-style – it's about information, explanation, exhortation – in other words, it's about media as much as it's about clinical excellence. At Channel 4 we have attempted to play our part, on-air and online, from Jamie's School Dinners to Embarrassing Illnesses. Such initiatives are not in any way replacements for NHS services but they are much more than minor embellishments. Digital Britain gives us the opportunity to re-think the NHS and at the same time to re-think the public service role of the media.

And the American Presidential election has shown that e-democracy is a massively powerful force that is subverting the old rules of political engagement and campaigning. It holds out a chance to refresh our tired democratic systems.

So I believe there's a vast spread of socially useful public initiatives that can parallel the commercial offers that stimulate demand for digital services. In addition, there's a third and rapidly growing component – social networks, the community and voluntary sectors, what John Holden in his pamphlet on Democratic Culture calls "home grown culture". In some sense the real potential

of the online world lies not in the 'for-profit' services of the market or the 'not-for-profit' services funded from the public purse but in the huge variety of 'for-fun' 'for-neighbours', 'for-friends' services that match online the thousands of clubs and voluntary groups of the real world.

My third boundary marker for Digital Britain concerns what you could call the supply side of the equation.   We will not fully realise that range of demand-driven services unless we also act to re-think the supply side of the equation. Here, too, the market will of course be the central driving force but the market alone won't do it.   For example, there's the hugely complex question of how to regulate and reward the exploitation of intellectual property in the digital world.

And there are issues of taste, decency, and transparency. We've moved a long way since the debates over the 2003 Communication Act when it was felt to be too early in the dawn of the internet age to address questions of regulation. Not any more.   Children and teenagers don't differentiate between content they access on television and what they access on the net, but our regulatory system still treat them as totally separate. One way of dealing with this may be to learn from the advertising industry where responsible self-regulation has been a success, and it's clear that, however they do it, the big internet service providers need to take more responsibility for the services they carry.   I'm not pretending it's easy. If ever an issue belonged in the 'difficult box' for parliament and for society at large, this is it. But we can no longer dodge it.

Let me now come back to what seems to me to be the central issue, the question of quality content. I have not set out to talk about public service broadcasting this morning or fly the flag for Channel 4.   But there is no escaping the simple fact that, despite the growth of imaginative network services and user-generated content; despite the fabulously creative energies of the games sector and virtual worlds, the traditional public service broadcasters remain the principal drivers of original quality content in British media. Between us we invest the better part of £3 billion a year. And in the online world, the BBC and Channel 4 have been at the forefront in pioneering high quality services of widely acknowledged social value.

The real value of the public/private balance of British TV has been that it created the conditions for a rich supply of quality content – it set benchmarks, it nurtured talent, it took creative risks, it provided a platform for the marginalised, it set standards of impartiality and quality in news which broadcasters around the world strive to emulate. It has been one of the absolutely crucial factors in the success of our creative industries. It has, to an extraordinary degree, set the tone and the mood for life in Britain.   We need to do a lot more than just shut our eyes, cross our fingers and hope that somehow the chemistry of the online world will serve us up something as good for the digital future. The history of media worldwide is that while market competition produces all kinds of benefits, quality of content is not always the most apparent one. We would be crazy to ignore that lesson.

Let me finish with a thought about the digital divide. We know it's a reality but perhaps we don't yet feel its impact. To me it has the potential to be as damaging to our society and our economy as the US health care system is to the well-being of the United States. By allowing a quarter of the population to fall through the net the United States pays a terrible price in wasted lives, lost employment, anxious and alienated communities.   If we leave the future of Digital Britain to the market – even if hi-speed broadband goes past everyone's front door – then the prognosis is not good. A growing digital divide will damage our country, our communities and our prosperity. But if we get it right, if we can completely re-invent the basic media ecology that has served our country so well in media over the last fifty years – the best of market forces leveraged by enlightened public intervention – then I believe we can turn digital division into digital multiplication – and put our country in a stronger position than ever to compete economically and at the same time contribute culturally, socially and creatively in a digital world.

Let's not take our eyes off that bigger prize as we fight our corners in the months ahead.

Thank you.