

**The Convergence Think Tank –
Seminar Two : Competition and innovation:
content and services**

A submission by the UK Film Council

February 2008

Executive Summary

The UK Film Council welcomes the opportunity to make a submission to the Convergence Think Tank - created by the Department for Culture, Media and Sport (DCMS) and the Department for Business, Enterprise and Regulatory Reform (BERR) - ahead of its second seminar.

The UK Film Council is the Government-backed lead agency for film in the UK. Our goal is to help make the UK a global hub for film in the digital age, with the world's most imaginative, diverse and vibrant film culture, underpinned by a flourishing, competitive film industry.

In this short submission we address the questions set out in advance of the second seminar convened by the Think Tank as they affect film. The key opportunities for content creators are the creation of new services which are not constrained by their capacity to store content and therefore can offer citizens and consumers a very broad range of product. We identify key challenges for content creators as being the availability of Next Generation Access (NGA) broadband and the potentially lower returns available from digital media as opposed to traditional packaged media such as DVD.

1. What are the future opportunities and challenges for UK providers and producers?

The opportunities and challenges identified at Question 4 in our submission to the First Seminar are all relevant here – opportunities for new forms of distribution, opportunities to enhance access, but challenges too as regards effective exploitation of copyrighted material and the need to constantly update skills.¹

In particular, the development of the development of legitimate digital services - streaming and download - services delivering films offers enormous opportunities for UK providers and producers of film. These services will deliver benefits to citizens and consumers since they will allow service providers to offer a much wider range of films (the so-called “Long Tail” effect) because the physical constraint of shelf space does not exist in a digital environment.

Such new services will also help to stimulate the development of new business models within the UK film industry thereby significantly benefiting the creative economy. They will also help to stem piracy by providing a legitimate offer to meet consumer demand. At present the take-up of legitimate services offering films is slow, although we strongly suspect that slow broadband speeds are a contributory factor (see answer to Question 2).

One of the major challenges for UK providers and producers is that the new revenue streams represented by online services are not necessarily incremental.

¹ <http://www.culture.gov.uk/Convergence/submissions/seminar1/ukfilmcouncil.pdf>

The reality, as illustrated by music and TV programming as well as by feature film, is that revenues that used to flow from the consumer into investment in production now are captured by the providers of hardware, networks and facilities (e.g. internet services, personal video recorders and catch-up TV).

Enders Analysis, a consultancy that advises media companies and investors on the market trends affecting them has produced forecasts showing that by 2012, the value of CD music sales worldwide will have fallen by more than two-thirds from its peak in 1997: \$13 billion versus \$45 billion.² Digital music sales (online and mobile) will only have made up \$8 billion of that loss of value. So according to Enders, over the course of fifteen years, the value of recorded music will have fallen in nominal terms by more than half; if we take inflation into account, that value will have fallen by more than three-quarters.

The outlook for DVD sales, responsible for much of the turnover and nearly all of the profits of UK films, is unlikely to be more encouraging. The main cause is not that customers are buying less: they are merely paying less. This trend is apparent in the current debate in the UK about children's television programming: the proliferation of channels and platforms has been to the detriment of investment in children's programming.

In the transition from established market mechanisms to the online delivery of content, the ecology that directed revenue flows into investment in production is disrupted. To this end, more attention needs to be given to the challenges for content production presented by the changes in how content is produced and consumed.

2. Is there a case for action to ensure effective access to key networks and/or access to content for a) consumers, b) service providers?

The availability of legal services that are attractive to consumers and offer a wide range of films is crucial to the capacity of the UK film sector to maximise the benefits of the digital age.

The key challenge that needs to be addressed to enable this to happen, both as regards consumers and service providers is the availability of Next Generation Access (NGA) broadband. The UK Film Council believes that the recently announced Government Review of NGA, and the barriers to it, is a valuable first step along the road to NGA.³ But Government must progress quickly to address any barriers which the Review identifies if the UK content creation sector, including film, is to remain internationally competitive – already creators and distributors in Hong Kong and South Korea, for example, benefit from very high broadband speeds enabling them to exploit very effectively digital markets for their products.

² As reported in The Financial Times on 9 April 2007,

³ Commitment 19, paras 6.17ff. <http://www.culture.gov.uk/NR/rdonlyres/096CB847-5E32-4435-9C52-C4D293CDECFD/0/CEPFeb2008.pdf>

3. What are the potential barriers to, and opportunities for, competition, growth, and innovation in content supply?

We have covered the key issues which we wish to raise in our response to Question 4 in our submission to the first Seminar.

4. What are the implications for future public policy?

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