



"Investment, growth and policy for the creative industries"

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Introduction

Thank you Andrew and good evening. It's great to have the opportunity to speak with you here tonight.

After the launch last month of the Government's Communications Review, this seems like an opportune moment to consider some of the issues raised.

And while the coming months will no doubt be full of vigorous debate, I'm sure we can all agree that the Secretary of State's commitment to open dialogue with industry is very welcome indeed.

Not only do we at Sky intend to play a full part in that debate, we also support much of the ambition that is evident in the Government's early thinking, for example its emphasis on deregulation as a means of promoting growth and innovation.

And, in particular, we're pleased that the Secretary of State has recognized the need to foster an environment in which the British content industry can continue to thrive. That's of critical importance – and it's the theme that I've chosen to focus on in my remarks this evening.

The creative industries already play a crucial role in this country's economic and cultural life. Accounting for 6 per cent of GDP. Investing over £4 billion a year in British audio-visual content. Punching above our weight in the international market. Enriching people's lives and fulfilling a unique social purpose.

In the future, we all want to see a more connected society in which people have access to new and innovative services on a variety of platforms and enjoy a wide range of content from diverse sources.

It is quite right that Government should encourage our industry to do more and to make a greater contribution to economic growth. That's a challenge we relish and we will play our full part.

However, in order for industry to maximize its potential, it's necessary to understand both the foundations on which those existing strengths are built and the necessary conditions for future investment and innovation.

So I'd like to take this opportunity to share with you Sky's perspective on some of the key issues, as well as some news about our own plans for further investment in British content.

The role of the market

Perhaps the most welcome aspect of the Secretary of State's open letter to industry was its emphasis on market-based competition as the source of choice, innovation and value for consumers.

Of course, in most sectors, such an emphasis would be entirely expected, to the extent that it would barely even be noticed. However, in broadcasting it represents a refreshing departure from the norm.

For too long, our sector has suffered from the misconception that good outcomes only happen because they are ordained from above and enacted through some form of intervention. Or that content is only worthwhile if it is created through subsidy or by a particular kind of institution.

It's high time we got rid of those blinkers once and for all. If we don't, the potential consequences are very damaging: an unhealthy dependence on public-sector solutions; the erosion of incentives for commercial investment; and a reduction in choice, quality and innovation for viewers.

What a lost opportunity that would be. So it is down to us in the commercial sector to demonstrate the positive case for the role of the market in providing what consumers want, as well as delivering economic and social benefits.

Over the last couple of years, the BBC has used the phrase "public value" to define its contribution and to set itself apart from the commercial world. In its words, "Public space is not-for-profit space".

Now, no one would argue that that BBC doesn't make some outstanding programmes - it most certainly does. But the idea that commercial purposes and public purposes are somehow incompatible simply isn't right.

On the contrary, it seems to me that commercial value and public value are inextricably linked. By way of evidence, look no further than the contribution made by businesses across the wider communications industry:

- The newspapers that provide a forum for democratic debate
- The publishing industry that feeds our hunger for knowledge
- The broadband networks that connect us to the world
- And high-quality television that entertains, informs and inspires

These are things that have public value written all over them.

Sky's contribution

I would argue that our story at Sky is evidence of the benefits that commercial investment can bring: new ideas, new technologies and new kinds of content.

Looking back 20 years, we first got into television because we saw a commercial opportunity to provide more choice. Ever since then, we've invested, competed and innovated to meet customers' needs and to make the most of the opportunity available to us.

In doing so, I believe that we have been a force for good, a real creator of public value. It's part of being a company with a can-do attitude and a bias for action.

Some of the results will probably be familiar to you already.

Our investment in sport – around £11 billion so far – has opened up unprecedented choice, helped to raise standards of coverage across the industry and supported British sport and its infrastructure at all levels.

Sky News has long been the only UK television news service that operates without any form of public support, and for millions of viewers it is the first place to go for breaking news.

We've helped to improve the whole experience of home entertainment through innovations like Sky+, high definition and now 3D TV.

And we've invested around £1 billion to bring increased choice and competition to the broadband marketplace, saving customers hundreds of millions of pounds as a result.

So I hope it is clear that we are a business with an appetite to invest when we see a commercial opportunity.

In doing all of this, we are making a significant and growing contribution to the UK creative industries:

- Today we employ around 2,500 people directly in skilled roles in production and broadcasting
- We're working with over 100 different independent producers
- We're supporting the growth of a vibrant multi-channel industry, helping this country to become a European hub for many international broadcasters, such as Viacom and Turner Broadcasting
- And we're helping other channels to fund their own UK content production by investing more than £350 million annually in partners like UKTV, Discovery and History.

Most importantly, this has not happened because of any regulatory incentive or obligation. It has happened because we look continually to anticipate and respond to what customers want. And I believe that is a far more powerful and lasting force than any form of regulation.

Increasing investment in British content

Now, of course, we're proud of this record. But we are still a young company and we have ambitions to do a lot more and widen our contribution still further.

We see this as part of the natural evolution of what we do. When Sky began, it made perfect sense for us to focus first on areas which were then relatively under-served, sport, movies and 24-hour news in particular. As the business has grown and become successful, it has given us both the opportunity and the incentive to broaden out and create more choice beyond those initial strengths. We know that, to keep on being successful in the future, simply doing what we've done in the past won't be good enough.

That is why a key priority for us will be the continued growth of our investment in high-quality British content. This year we'll spend £380 million on UK commissioning and production across entertainment, sport, news and arts, even before taking into account our investment in sports rights. That's already enough to make us one of the country's biggest supporters of home-grown content.

As we accelerate the development of our entertainment offering, we plan to grow that figure substantially over the next three years. So, by 2014, we plan to be investing £600 million a year in British content, an increase of over 50 per cent.

The motivation is very simple and, again, it is driven by a purely commercial mindset. Home-grown content resonates strongly and we believe we can both bring more quality and value to existing customers, while also reaching out to more people who haven't yet chosen pay TV.

Our plans will take our original entertainment to an entirely different scale, complementing our existing strengths in sport, movies and news. They will mean working with the best production, writing and acting talent and will require focus and creative ambition as well as sustained financial investment.

So what will that mean on screen? Let me give just three examples.

First, it means more original drama, which we've been developing for a few years with the likes of the BAFTA-nominated *Mad Dogs*. Over the next three years, we expect to see a four-fold increase in our hours of original British drama. Some of the next projects to reach the screen will include a new series from the creator of *State of Play* and *Shameless*, Paul Abbott, and the first feature-length commission for Sky Movies, *Neverland*, starring Anna Friel, Rhys Ifans and Bob Hoskins.

Alongside drama, we are kicking off a major new British comedy strand, with original comedy running all year round from July. To do this, we're working with established writers and producers, such as Ruth Jones, the co-creator of *Gavin & Stacey*, and Ash Attala, who produced *The Office*. And we're supporting new talent like Chris

Bran and Justin Chubb, who have created a new series, This is Jinsy, that will premiere in September.

And third, we will triple the programme budget for the Sky Arts channels, which have carved out a unique position in British television and are now watched by more than 2 million viewers each month.

Over and above those three examples, there will also be more family entertainment and more documentaries, like Sir David Attenborough's BAFTA-winning Flying Monsters 3D. And, of course, we will maintain our strong commitment to sports and news.

This is a significant undertaking for us and a demonstration of our commitment to the UK. Programming like this is inherently risky and time-consuming. But if we get it right, the results won't just be good for our business, but for customers and Britain's creative industries as well.

The role for Government

That brings me back to my starting point this evening – the role that government can play in fostering a positive environment for the content industry.

Like many others, we at Sky have a keen interest in ensuring a durable and sustainable economic model for content investment. In this regard, our interests are absolutely aligned with other commercial investors in British content, whether it is ITV or Channel 4 in broadcasting, Universal in music or Eidos in video games.

We cannot escape the simple fact that content creation is expensive and risky, as there is never any guarantee of a sure-fire hit. In fact, it can be much more expensive than the infrastructure developments that tend to attract a far greater share of public debate. Let's not forget, for example, that despite all of the noise about superfast broadband, Sky alone invests more in all kinds of content every year than BT is spending over five years to roll out fibre-optic broadband. And that's before you even think about the investments made by the other commercial broadcasters.

So my simple message to policymakers this evening is that the commercial incentives for content investment cannot be taken for granted. They need to be understood and preserved, particularly when the proliferation of digital platforms is creating opportunities and risks in equal measure.

For content creators, the paradox of digital, IP-based networks is that they make it easy to distribute content quickly and efficiently to billions of devices almost anywhere in the world. But simultaneously they can make content harder to package securely, to value and ultimately to monetise. And if there are doubts about monetisation, then investment will suffer.

So while the digital economy is proving a huge opportunity, it also creates huge risks that content will be exploited by people who do not value it and are not prepared to reinvest in it. On one side, there are those who would distribute content illegally without reimbursing the creator. On the other, there are

businesses for whom content can be a means to an end - such as selling devices, broadband connections or search advertising - but who may not necessarily share the long-term incentive to reinvest in content creation.

Those risks are capable of threatening the continued availability of a diverse range of high-quality content. Only by ensuring that content creation remains economically attractive can we ensure that producers, distributors and consumers continue to benefit from a virtuous circle of investment, creativity and reward in the future.

And that is where Government must play a role.

The policy framework

At this point in the process, we are just beginning the debate about a new policy framework. So let me highlight just five practical examples of how politicians can make sure they strengthen, not undermine, the incentives to invest in content.

First, we need to continue to underpin the value of content through a robust, fit-for-purpose Intellectual Property and copyright regime. IP has been the building block of turning ideas into economic goods for centuries and we should not undermine this principle now.

So I am pleased that Professor Hargreaves' review has taken a measured approach to modernising our copyright laws and rejected the misguided arguments that the introduction of a so-called 'fair use' law would lead to Silicon Valley springing up somewhere in Berkshire.

Of course, protecting copyright means first and foremost recognising that digital theft is still theft and must not be given the slightest encouragement, either morally or economically. If we want the creative economy to flourish, ISPs and rights owners each have a role to play in taking sensible, proportionate steps - as set out in the Digital Economy Act - to tackle theft, educate consumers and promote legitimate services. It is time to stop prevaricating and for the industry to work collaboratively and constructively with Government to implement the provisions of the DEA.

Second, we must make sure that content owners are free to choose how to distribute and monetise their intellectual property. That requires the UK and EU to provide a framework that enshrines choice and allows different business models to compete on the merits.

For example, some in the EU argue that cross border online content services are being held back by the lack of a single model for EU-wide content licensing and pricing. In fact, where there is demand for content across borders it is readily available - just look at Sky in Ireland. But in some cases there are legitimate reasons why a rights owner might prefer to license its content in individual countries or price it differently, just as in some cases it might want to adopt a single approach for the whole of Europe. The point is that the choice must be one for the content producer to make - not mandated from above.

A third, related point is that investment in content shouldn't be subordinated to other policy goals, such as infrastructure development. The possible temptation to do so is all too obvious, since high-quality content has proven so successful at driving take-up of technologies such as digital TV and broadband.

Content can and should continue to play a role in supporting the growth of new distribution platforms. But we must be careful not to kill the golden goose. And that means taking a balanced approach which ensures that the incentives to invest in content are not sacrificed in order to promote investment in the shiny, new pipes through which the content is to be carried. In the long run, that would be in the interests of no one.

Fourth, I would advise politicians to resist the temptation to heap regulation on to emerging platforms in an attempt to replicate the way in which TV has historically been regulated.

Over time, we see the potential for hybrid or standalone IP-based platforms - offering on-demand, catch-up and linear services - to make a growing contribution to content investment. To be successful, those platforms will need to grow to scale and stay agile in the face of strong, often global competition. A disproportionate regulatory burden would undermine their growth potential and, ultimately, their future role in the content value chain.

And finally, alongside this, we need a more flexible approach to existing broadcast platforms and channels, including the opportunity for measured and sensible deregulation as consumer behaviour and expectations change.

Of course, that is not to say there should be no regulation. We recognize the important and influential role that television plays in family life and in our society, and the importance of appropriate protection for children and other vulnerable groups. Similarly, we accept that open linear broadcast platforms have been good both for the consumer and for the industry. I am proud, for example, that Sky's open platform carries more than 60 channels for foreign and ethnic audiences in the UK.

But if the policy response to the old world of spectrum scarcity was one of intervention and control, the response to a new world of choice and competition must increasingly be to step back and let the market deliver. In that environment, consumers themselves will choose the brands they trust and companies will be highly motivated to ensure they meet those expectations.

Conclusion

Collectively, these are five points that would make a big difference as the Government looks to preserve and enhance the incentives to invest in content. That would be good for consumers, for the wider industry and for the economy.

From Sky's perspective, we have been a committed investor in content over last two decades. That approach has been driven by a strong belief that the pursuit of unashamedly commercial objectives through open competition is a powerful force for good. And we have the capability and the appetite to do much more in the

years ahead, including a significant increase in investment in high-quality, British content.

What we look for from Government is a new approach which recognises what the market is delivering today and its potential to deliver even more in the future. True to the priorities laid out by the Secretary of State, that means putting in place a sustainable framework for content investment. By preserving the incentives to invest, we can ensure that consumers in tomorrow's digital economy continue to enjoy the wide range of quality content that we value so much today.

Thank you.

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