



OBSERVATOIRE EUROPÉEN DE L'AUDIOVISUEL
EUROPEAN AUDIOVISUAL OBSERVATORY
EUROPÄISCHE AUDIOVISUELLE INFORMATIONSTELLE

**THE FINANCIAL SITUATION
OF TELEVISION COMPANIES
IN THE EUROPEAN UNION
(1999-2004)**

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After the 2001-2002 period, when huge losses were recorded, the overall situation of television companies in the 25 European Union member states improved in 2003 and 2004. TV company revenue rose by EUR 10 billion between 1999 and 2003, reaching EUR 64,5 billion in 2003, an average annual increase of 4,4%. The sector as a whole achieved a small but positive profit margin in 2003 (0,4% compared to -5,7% in 2001 and -3,7% in 2002), although the net deficit remains considerable: EUR 2,4 billion compared to EUR 4,7 billion in 2001 and EUR 3,1 billion in 2002.

More and more companies in the market but a higher number of bankruptcies and mergers

The European Audiovisual Observatory analysed the annual accounts and balance sheets of around 550 television companies for the years 1999-2003. There are not yet enough figures available for 2004 to carry out a similar analysis for that year, although all the indications are that the financial recovery of this sector continued.

The Observatory divides television companies into six main categories:

- Public radio-television companies (SPTV): this group includes traditional large public service broadcasters that produce generalist, national or regional channels, as well as their subsidiaries that broadcast thematic channels. Radio activities are usually included in the accounts of integrated companies (BBC, RAI, ARD, etc). The accounts of radio companies (Radio France, Sveriges Radio, etc) were not taken into consideration;
- Private television companies financed through advertising (ADTV): this category includes generalist channels, usually broadcast terrestrially;
- Television companies offering film pay-TV channels (PAYTV): this group includes the Canal+ channels, but not companies which mainly produce packages of channels;
- Programme packagers (PACKTV). These companies may offer packages via satellite (BSkyB, Canal Satellite, TPS, etc) or on digital terrestrial television (the defunct ITV Digital and Quiero, Senda i Sverige, etc). However, for various reasons, we were unable to include cable operators in this analysis;
- Thematic television companies (THTV). These companies publish one or several thematic channels targeting a single national market or various markets in Europe.
- Home shopping companies (HSTV). These may be actual broadcasting companies (QVC, HSN, etc) or broadcasters' home shopping subsidiaries.

T.1 Number of European Union television companies analysed by the European Audiovisual Observatory (1999-2003)

	1999	2000	2001	2002	2003
SPTV	74	76	80	81	79
ADTV	81	82	79	79	76
PAYTV	25	26	27	26	27
PACKTV	33	35	36	33	36
THTV	159	197	218	233	236
HSTV	30	33	30	35	35
Total	402	449	470	487	489

The number of active companies increased by 87 in four years. In fact, 155 new companies were created while 68 either closed down or were merged. The number of companies broadcasting thematic channels grew more than any other – although this is also the most fragile category of TV company¹.

Growth rates vary from country to country

The United Kingdom is by far the country with the largest TV company revenue: EUR 17.3 billion in 2003, compared to EUR 13,6 billion in Germany, EUR 10,5 billion in France and EUR 7,6 billion in Italy. This is due to the high level of funding of public service television, the advanced development of digital television and the number of channels available, but also to the fact that many pan-European broadcasting companies are based in Great Britain².

¹ Apart from a few exceptions, the figures are based on companies' non-consolidated accounts in order to stick as closely as possible to the activities of broadcasters, excluding those of production, distribution or transmission subsidiaries. The companies analysed do not include all broadcasters in the European Union, the total number of which is estimated at around 720. However, the vast majority of companies that are not included in the sample analysed by the Observatory are operators of small thematic channels virtually non-existent in the market and with very little financial muscle. The Observatory considers its sample to be completely representative of the market and welcomes the efforts made by broadcasters in recent years to become more transparent. Relatively few estimates were necessary to fill gaps in information.

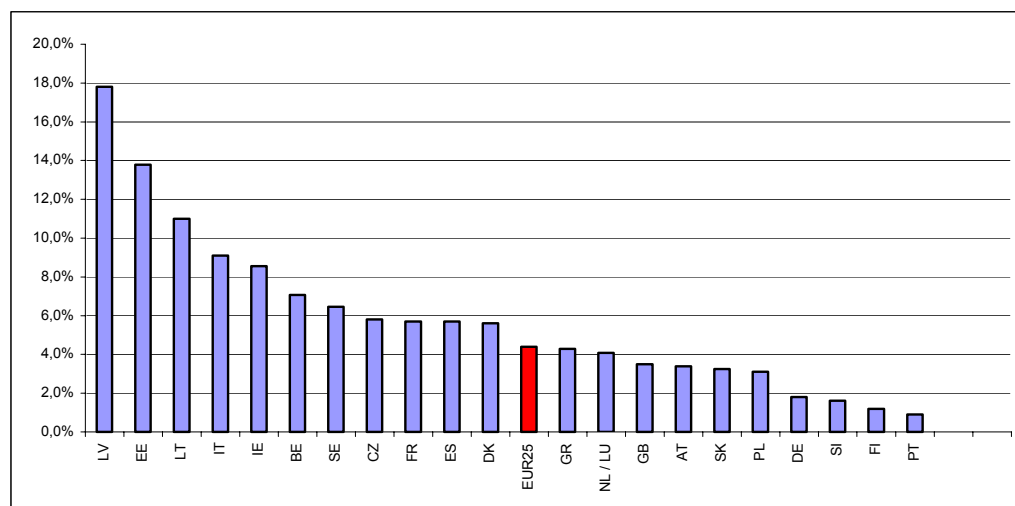
² The Observatory estimates that the operating revenue recorded in 2003 by UK-based companies producing pan-European or international channels (excluding BBC World Services) exceeded EUR 800 million. The figure was around EUR 974 million but fell notably when Flemish channel VT-4 moved back to Belgium.

T.2 Operating revenue of European Union television companies (1999-2003) - EUR thousand

	1999	2000	2001	2002	2003
GB	15 077 283	16 635 532	17 877 253	17 225 398	17 268 269
DE	12 626 897	13 526 700	13 772 000	13 806 111	13 583 899
FR	8 415 658	9 361 000	9 686 000	10 020 131	10 507 285
IT	5 349 582	5 992 117	6 129 108	6 313 221	7 580 650
ES	3 824 581	4 304 234	4 457 549	4 497 706	4 777 624
NL / LU	1 768 489	1 880 000	2 016 000	2 092 274	2 075 105
SE	1 011 630	1 069 791	1 080 744	1 205 736	1 300 418
BE	968 771	1 076 217	1 097 110	1 185 208	1 273 124
AT	857 349	944 499	928 860	930 151	979 398
GR	760 209	881 833	866 933	909 475	898 941
DK	715 084	793 849	823 052	856 687	888 700
PL	763 004	986 292	1 151 026	1 023 188	862 386
FI	554 121	580 160	581 059	578 182	581 091
PT	401 237	428 320	426 625	389 518	415 780
CZ	283 759	284 026	312 879	330 769	354 891
IE	250 973	263 646	278 846	313 778	348 468
HU	207 721	244 676	276 068	305 737	n.c.
SI	126 492	135 149	144 373	141 181	134 890
SK	68 668	69 436	78 474	74 396	78 035
LT	21 169	23 657	28 107	30 208	32 134
LV	14 383	21 979	22 118	21 015	27 711
EE	15 944	16 011	15 828	22 852	26 734
MT	8 812	9 078	8 729	8 179	7 908
CY	n.c.	n.c.	n.c.	n.c.	n.c.
EUR 25	54 093 815	59 530 202	62 060 742	62 283 103	64 292 515

Source : European Audiovisual Observatory

G.1 Yearly average growth of television companies in the European Union (EUR 25 - 1999-2003) In %.



Source: European Audiovisual Observatory

The yearly average growth of 4,4% is fairly disappointing compared to the two-figure growth rates enjoyed by the sector in the 1980s and 1990s (it was still 10% in 2000). The poorest growth figure was recorded in 2002 (0,4%), although it rose to 3,2% in 2003. Of the larger countries, only France achieved average growth higher than the European average (5,7%), although the growth stimulated at the start of the decade by the increasing importance of thematic packages and channels is, in France as elsewhere, beginning to tail off. Germany suffered a 1,6% drop in 2003, mainly due to a recession in the advertising market. The apparent slump in the British and Polish markets is actually due to the conversion of figures into euros. The revenue of British companies rose from GBP 10,8 billion in 2001 to GBP 12,2 billion in 2003. In the national currency, the Polish market remained quite stable at around PLN 4,1 billion between 2001 and 2003.

The highest average growth rates were recorded in the Baltic states, thanks to the increase in funding of public service broadcasting, the growth of the advertising market and the relative strengthening of national currencies. The apparent buoyancy of the Italian market is largely due to the successful launch of the new Sky Italia platform, which resulted from the merger of Stream and Telepiù and was immediately listed as the 10th largest European company in 2004. The growth of the Belgian market is partly the result of the repatriation of the Flemish channel VT-4, which was previously based in London, and of the development of national thematic channels. The Portuguese market has struggled because of the recession in the advertising market and the drop in public service revenue. However, it should be noted that the Portuguese figures do not include the extraordinary growth of the television activities of PT-Multimédia³.

T.3 Operating revenue of the different categories of television company in the European Union (1999-2003)

EUR thousand

	1999	2000	2001	2002	2003
SPTV	25 188 375	26 068 185	27 171 695	27 357 839	27 440 565
ADTV	17 272 044	19 479 894	19 001 825	18 220 058	18 292 527
PAY TV	3 156 856	3 343 030	3 641 581	3 698 639	3 332 345
PACKTV	5 153 822	6 724 909	7 646 472	8 221 956	10 274 679
THTV	2 290 292	2 732 000	3 247 638	3 374 132	3 405 301
HSTV	1 152 060	1 324 325	1 465 000	1 659 117	1 782 814
Total	54 213 449	59 672 343	62 174 211	62 531 741	64 528 231

Source: European Audiovisual Observatory

³ A subsidiary of the Portugal Telecom group, PT-Multimedia is not included in our figures because its main activities, via TV-Cabo, lie in the field of cable distribution, including Internet services. PT-Multimedia is also a packager of TV programmes and broadcaster of thematic channels, but no separate accounts are available for these activities. The company's television-related turnover increased from EUR 145,8 million in 1999 to EUR 409,9 million in 2004.

Huge variation in national financial situations

On the whole, the financial situation of the television sector in the European Union improved markedly in 2003 and the first figures available for 2004 tend to confirm this pattern. There are three main reasons for this:

- Following the general recession of the European economy in 2001, which was particularly evident in a drop in advertising investment, the economy began to grow again and advertising revenue increased in most countries (with the notable exception of Germany). Furthermore, digital television packagers (following the spectacular bankruptcies of ITV Digital in the United Kingdom and Quiero in Spain and the mergers between satellite platforms in Germany, Spain, Italy and Poland) are gradually reaching break-even point;
- Operating costs have fallen, leading to a considerable improvement in operating margins, which rose from -3,8% in 2001 to 0,5% in 2003. The Observatory does not have sufficient information to analyse this reduction in operating costs in any detail. However, it can be assumed that the merger of digital platforms in several countries has reduced programme acquisition costs. Moreover, despite a few gaps, the Observatory has been able to analyse in detail permanent employment in European Union television companies: the total number of employees rose from 189 800 in 1999 to 196 600 in 2003 (+ 3,6%), reaching a peak of 198 400 in 2001 before dropping by 1 800 in the space of two following years;⁴
- The financial operations deficit was cut from EUR 1,4 billion in 1999 to EUR 120 million in 2003.⁵

⁴ It should be noted that the analysis of permanent employment includes local and small regional television channels which are not taken into account elsewhere.

⁵ It should be noted, however, that the continuation of a largely negative net result at a time when pre-tax results have become positive is the result of an increase in the deficit linked to extraordinary operations, which are always difficult to analyse where television companies are concerned.

Profit margins of national television systems in the European Union (1999-2003)

In %

	1999	2000	2001	2002	2003
DK	-2,0	1,1	1,3	-0,8	10,4
FR	3,2	5,9	6,7	5,7	5,4
SE	-4,4	-3,0	-9,2	-4,1	4,4
EE	-53	-31,1	-18,5	0,3	4,1
GB	1,3	-2,8	-7,9	-3,7	3,3
DE	1,1	0,9	-3,0	2,4	2,2
IE	37,59	-5,38	-16,32	-7,39	0,30
BE	0,6	3,8	-0,1	-0,3	-1,7
PL	-10,5	-18,1	-18,3	-42,3	-1,2
AT	1,9	-2,4	-1,3	-5,1	-3,7
NL	0,2	1,6	-7,2	-5,4	n.a.
IT	-4,2	-7,2	-12,1	-10,6	-6,9
GR	1,9	-0,5	-2,4	-5,2	-7,2
FI	-7,9	-9,8	-29,3	-21,9	-11,3
ES	-13,8	-16,2	-24,1	-23,6	-15,4
PT	-20,9	-30,0	-70,5	-57,6	-17,5

Source: European Audiovisual Observatory

Looking at the situation country by country, it is noticeable that national situations vary considerably. The French television system, despite three main areas of competition (private sector vs public sector, TF1 vs M6 in the advertising market and Canal Satellite vs TPS in the digital television market), achieved relatively stable profit margins, reaching 6,7% in 2001. The profitability of the German system is also relatively stable, despite the overall loss in 2001. However, profits in the United Kingdom were severely affected by the bankruptcy of ITV Digital, combined with the advertising market crash that hit ITV's group of regional companies (which were also forced into a major concentration process), the continuing deficit of BSkyB and a difficult period for the BBC. In Italy, the two main operators, RAI and R.T.I. (the broadcasting subsidiary of the Mediaset group), experienced a relatively calm period from a financial point of view, although the profitability of the national television system was crippled by the deficit of the two digital platforms and thematic channels.

For the last few years, Finland's private and public broadcasters have been in deficit. However, according to some Finnish managers, these deficits are planned and relatively under control as part of the introduction of digital terrestrial television. The situation is very different in Spain and Portugal, where public companies (including the TV companies of the autonomous communities in Spain) have major structural deficits. Spain's two private advertising-funded channels (Antena 3 and Telecinco) enjoy substantial margins, but the negative impact of competition between the two digital satellite television platforms (Via Digital and Canal Satellite) before their merger was huge. In Portugal, the two private channels funded through advertising (SIC and TVI) were badly affected by the advertising market slump. The situation in Portugal seems to have recovered in 2004 (profit margin of +2,7%), when RTP began to progress again and the advertising market picked up.

Digital packagers lead the way

The digital television packagers category (PACKTV), with an average annual growth rate of 18,8%, has contributed most to the growth of the market. This growth was particularly strong at the start of the period under consideration (30,5%), fell away in 2002 (7,5%) and increased again in 2003 (25%). However, it is expected to drop again in 2004 (between 3 and 4%), now that the impact of the launch of Sky Italia has worn off. According to available data on the results of four companies in 2004, this group of operators should nevertheless, for the first time, achieve a profit margin of around 6% compared to -4,5% in 2003. However, the development of a free multi-channel service via digital terrestrial television could curb the growth of digital pay-TV platforms in the coming years. In June 2005, the French press reported on the M6 group's intention to sell its share in the TPS platform, which saw a significant drop in subscriptions when the digital terrestrial service was launched and whose competitor Canal+ / Canal Satellite acquired the rights to the national football championship (at a cost of EUR 600 million per year). For the first time, TPS lost around 3,000 subscribers during the first half 2005.

T.5 Rate of growth of the different categories of television company in the European Union (EUR 25 - 1999-2003)

	2000/1999	2001/2000	2002/2001	2003/2002
SPTV	3,5%	4,2%	0,7%	0,3%
ADTV	12,8%	-2,5%	-4,1%	0,4%
PAYTV	5,9%	8,9%	1,6%	-9,9%
PACKTV	30,5%	13,7%	7,5%	25,0%
THTV	19,3%	18,9%	3,9%	0,9%
HSTV	15,0%	10,6%	13,3%	7,5%
Total	10,1%	4,2%	0,6%	3,2%

Source: European Audiovisual Observatory

T.6. Profit margins of the different categories of television company in the European Union (1999-2003)

In %

	1999	2000	2001	2002	2003
SPTTV	-1,5	-2,7	-2,7	-4,6	-1,5
ADTV	15,2	18,0	9,6	7,2	10,2
PAYTV	-0,1	-3,9	-2,6	-1,7	4,5
PACKTV	-45,4	-49,7	-49,5	-22,8	-9,6
THTV	-6,1	-12,2	-19,7	-10,1	-10,8
HSTV	0,1	-5,5	-8,4	-5,6	-0,9
Total	-0,5	-1,8	-5,7	-3,7	0,4

Source: European Audiovisual Observatory

Thematic and home shopping channels enjoyed substantial growth rates between 1999 and 2001, linked to the success of the digital platforms that distribute them. However, their growth rates have since fallen. The growth of thematic channels plummeted in 2002 (3,9%) and was virtually nil in 2003 (0,9%). As we have mentioned, apart from a few well established companies (such as Eurosport, Turner Broadcasting System Europe, ABSat, etc), most of these companies are financially very fragile and in very narrow niche markets. The profit margin of this category of companies is not showing any upward trend. On the other hand, home shopping channels, whose margins deteriorated in 2000 and 2001, seem to have become profitable again.

The category of pay-TV companies specialising in film (we include Canal+ in this group, even though it is in fact a hybrid channel combining film, sport and entertainment) has become difficult to analyse, since some of these companies in Belgium, the Netherlands and Italy have been replaced by companies that we would classify as packagers. Besides, some pay-TV film channels are operated by packagers (BSkyB, Sky Italia, TPS, Premiere, etc) and separate accounts for their film channels are not available. The recession of 2003 and the poor average growth during the period analysed should partly be interpreted with these methodological questions in mind.

Television advertising affected by recession

On the other hand, the low average growth rate (1,4%) of television companies financed through advertising is very clearly linked to the slump in the advertising market in 2001 and 2002 and its very slight recovery in 2003. However, this was the only category that remained profitable throughout the period, although its profit margin dropped from 18% in 2000 to 7,2% in 2002. The rate of return on shareholders' funds also fell from 66,3% in 2000 to 22,1% in 2002, before climbing to 28,4% in 2003.

The first figures available for 2004 definitely indicate a continued recovery and an estimated growth rate of 5,5%. In the United Kingdom, the new ITV PLC group has announced pro forma growth of 4,7%. In France, TF1 S.A. recorded growth of 7,1%. The RTL Group announced a 0,8% fall in "television" income: in the Netherlands, RTL Nederland recorded a 5,39% increase in operating revenue, although in France M6 achieved only 2,6% growth. Revenue for RTL Deutschland fell by 2,7%. In contrast, revenue for the RTL Group increased by 12,8% in Belgium and that of Channel Five in the United Kingdom rose 10,4%. In Germany, Prosiebsat.1 Media AG (consolidating the results of Pro 7, Sat.1, Kabel 1 and N24) only recorded 1,03% growth. In Portugal, the operating revenue of SIC (non-consolidated) and TVI grew by 12,7% and 7,5% respectively. Mediaset announced growth of 9,1% in Italian advertising revenue and 20,8% growth in revenue from Telecinco in Spain. Also in Spain, the parent company of Antena 3 recorded 29,4% growth. Central European Media, Richard Lauder's group which controls the market leaders in several Central European countries, announced exceptional revenue growth of 40% in 2004. Finally, the group SBS Broadcasting S.A., owner of 16 TV advertising channels in Europe, announced turnover for 2004 of EUR 678 million, an increase of 16,6%.

Public company funding under discussion

Across Europe, there is currently a broad political consensus that every country should have a public broadcasting service. This consensus was less apparent in the 1980s and 1990s, as illustrated by different texts of the Council of Europe, European Parliament and European Commission, as well as the Amsterdam Protocol adopted in 1998 by the Council of Ministers of the European Union. The Amsterdam Protocol recognises that "the system of public broadcasting in the Member States is directly related to the democratic, social and cultural needs of each society and to the need to preserve media pluralism". A public broadcasting service can be defined above all by its remit, which generally includes information, culture, education, the organisation of pluralism, promotion of minority cultures, etc. In several countries, particularly Scandinavian countries and the United Kingdom, it has been recognised that public broadcasting has a major role to play in the development of digital terrestrial television.

Public television companies recorded average growth of 2,2% during the period in question, although the figures were very low in 2002 and 2003 (0,7% and 0,3%). Those in the Baltic countries enjoyed the largest average growth figures (39,9% in Latvia, 22,2% in Estonia, 6,6% in Lithuania), while in Western Europe the best results were recorded in Ireland, France, Denmark and Belgium. In Poland, TVP saw its revenue fall by an average of 2,7% during the period, while in Portugal RTP's revenue dropped by 5,1%. In 2004, however, the situation of RTP improved tremendously thanks to a revenue increase of around 31,5%. Profit margins are certainly less significant where public companies are concerned, since profits are not their main objective. Nevertheless, the profit margin of all public broadcasters in the European Union remained negative throughout the period 1999-2003, pointing to an overall structural deficit.

In reality, however, the situation of public television companies varies hugely from one country to the next. In Denmark, the five public service channels still accounted for 69,3% of the market in 2004, while in the Baltic states and Greece, the public service holds less than a 20% market share. In the large countries, public broadcasters' audience share has remained fairly stable since the start of the decade, varying between 49 and 51% in Spain and Poland, between 47 and 48% in the United Kingdom, between 43 and 44% in Germany, between 41 and 42% in France and between 44 and 47% in Italy. These stable market shares are generally achieved thanks to the addition of thematic channels by public service broadcasters, which gives them a place in cable, satellite or terrestrial digital television packages. Regional channels or windows also often play a part in the stability of the public service. One of the key objectives for public broadcasters is therefore to retain a presence in the new niche markets created by digital television. This is often a source of contention with private operators.

In this context, the main problem facing public service broadcasting in the future is probably that of funding. Our analysis of the accounts of public broadcasters suggests that the situation is deteriorating: net losses rose from EUR 236 million in 1999 to EUR 1,5 billion in 2002, before falling back down to EUR 366,4 million in 2003. The financial situation of public broadcasters varies widely from country to country: it is generally healthy in France and Italy, but in dire straits in Spain, where RTVE and most of the 'autonomous community' channels suffer a structural deficit: in 2004 the Group recorded a net deficit of EUR 751,4 million, against revenue of EUR 874,4 million. In Portugal, the situation of Radio e Televisão de Portugal is improving, with a reduced net deficit of EUR 4,4 million in 2004 (for 205,8 in 2001), thanks to a significant increase in public funding (+17,1% in 2004 compared to 2003). In the United Kingdom, the announcement of massive job cuts at the BBC is proof that the situation is in

decline, although Channel 4 (whose public status is often forgotten) is in excellent health. The net deficit of the BBC Group for year 2004-2005 still reached EUR 273,7 million (though this is an improvement compared to the EUR 456,1 million registered in 2002-2003 and the EUR 373,5 million for 2003-2004, and an illustration of the high costs incurred during the development of digital television). It should be emphasised that, in Central European countries other than Poland and the Baltic states, public service broadcasters are struggling terribly, both from a financial point of view and in terms of audience share.

The public broadcasting sector in Europe has a wide range of different national funding structures, although they can be split into two main categories: public revenue (licence fee or funding direct from the state budget) and commercial revenue (advertising, sale of programmes, books, discs and, in recent years, pay-TV income). In order to make useful comparisons, the funding of all public broadcasters from one country should be compared with that of all the companies from another. There is little sense in comparing the financing of France-Télévisions with that of the BBC: on the one hand, the BBC provides radio services, while on the other the public sector in the United Kingdom also includes the Channel 4 Group (funded through advertising and its pay-TV channels) and Welsh channel S4C. In France, public service companies also include Radio France, RFI, RFO, INA, TV5, Arte, etc. The overall ratio of public to commercial revenue in France is more or less the same as in the United Kingdom.

With regard to public funding, the choice between the most traditional method (licence fee) and funding from the state budget is a topic of debate. In recent years, several countries (Portugal, the Netherlands, Flanders and the Brussels Region) have replaced the licence fee with public funding from the state budget. This method may save the cost of collecting the licence fee, but most public broadcasters believe it increases their dependence on the public authorities. In the Netherlands and Portugal, this system has led to a reduction in revenue.

Following a series of complaints lodged by private companies, the European Commission has for several years been examining the compatibility of the financing of public broadcasting companies with Community competition law. Problems are caused by the fact that more and more public broadcasters are offering commercial services, which are not necessarily considered by all parties to fall within their public service remit. In many EU countries, private channels have challenged the public broadcasters before either the national courts or the European Commission. The argument is usually that public broadcasting companies are unfairly using public funds (considered as state aid) to strengthen their commercial activities.

In a 2001 Communication, the European Commission clearly indicated that public financing of public service broadcasters was not contrary to Article 87(1) of the Treaty and that it was up to the member states to define clearly the public service remit of their broadcasters. The European Commission adopted a Communication describing the conditions for the application of rules on state aid to national public broadcasting companies in accordance with the Protocol and Article 86, paragraph 2 of the EC Treaty. This text lays down the criteria that must be met by public funding of public broadcasting. In particular, it states that such funding must be proportional to the cost of carrying out the public service remit entrusted to the broadcaster concerned. The funding of public broadcasters must not exceed the bare minimum needed to guarantee the effective execution of the public service remit, must not unduly benefit commercial activities and must be transparent.

The Commission Communication also points out that a distinction must be made for accounting purposes between public TV and radio companies' public service activities, ie those linked to broadcasting itself, and their commercial activities, for example advertising. It also takes into account the specific situation of funding systems that were introduced in numerous member states before the EC Treaty entered into force in those states. The Commission therefore draws a distinction between traditional public funding and more recent financial aid.

The Commission has had to examine various complaints from private broadcasters. In April 2005, it concluded its investigations, launched at the end of 2003, concerning public broadcasters in France, Italy and Spain, since the respective governments had carried out the necessary reforms. This was particularly important in Spain, where the state previously guaranteed RTVE's considerable debt. In March 2005, the Commission requested explanations from Germany, Ireland and the Netherlands concerning the remit and funding of public broadcasters. However, the most significant case concerns the TV2 company in Denmark. In May 2004, the Commission demanded that EUR 84,4 million of illegal aid be paid back to the Danish state. In October 2004, the Commission accepted a repayment plan leading to the recapitalisation and privatisation of the company, as well as an end to the granting of funds from the licence fee. However, in January 2005, two private channels brought an appeal against the decision before the Court of First Instance of the European Court in Luxembourg.

It is significant that the complaints brought by the private channels particularly concern the funding and size of Internet sites, the launch of SMS services and the financing of thematic channels, ie new services. In Sweden, the Commission has also questioned the monopoly held by Teracom (the equivalent of TDF) and the public aid it has received to implement digital television.

Conclusions

The start of the millennium has been a difficult time for the whole industry. The deterioration of the economy as a whole has complicated the transition towards digital television, which has proved expensive in terms of both the huge investments required and the impact of the rising costs of programme rights. The latest forecasts are not particularly optimistic as regards the growth of the European economy and the television sector is expected to feel the effects of this. According to the forecasts published by the *European Advertising & Media Forecast* in July 2005, Eurozone adspend looks set to grow by 2,9% in 2005 and 4% in 2006. Growth in TV adspend is expected to be slightly higher (3,9% in 2005, 5,1% in 2006). The period of growth enjoyed by the sector, thanks particularly to the development of digital pay-TV platforms, should come to an end as soon as digital terrestrial television offers viewers a free multi-channel alternative.

However, free service for viewers comes at a cost for broadcasters. The new private companies, such as the Bolloré Group in France, are expecting to be in deficit for more than ten years before breaking even. As regards the additional services offered by public companies, it remains to be seen whether they are sustainable in the long term. The tricky financial situation of YLE in Finland and the BBC suggests that this is not an easy path to take. Finally, the emergence of new transmission techniques, such as ADSL and mobile telephony, is providing Internet service providers and telecommunications operators with a way in or a return to the television sector. The system will therefore become even more complex, bringing with it the risk of new financial difficulties as well as increasing problems with transparency.

The European Audiovisual Observatory, Strasbourg, France.

Set up in December 1992, the European Audiovisual Observatory's goal is to gather and diffuse information on the audiovisual industry in Europe. The Observatory is a European public service body comprised of 35 member states and the European Community, represented by the European Commission. It operates as a partial agreement of the Council of Europe and works alongside a number of partner and professional organisations from within the industry, together with a Europe-wide network of correspondents. In addition to contributions to conferences, other major activities are the publication of a Yearbook, a newsletter and reports, the management of the LUMIERE, KORDA and IRIS MERLIN databases, and the provision of information through the Observatory's Internet site: (<http://www.obs.coe.int/>).

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