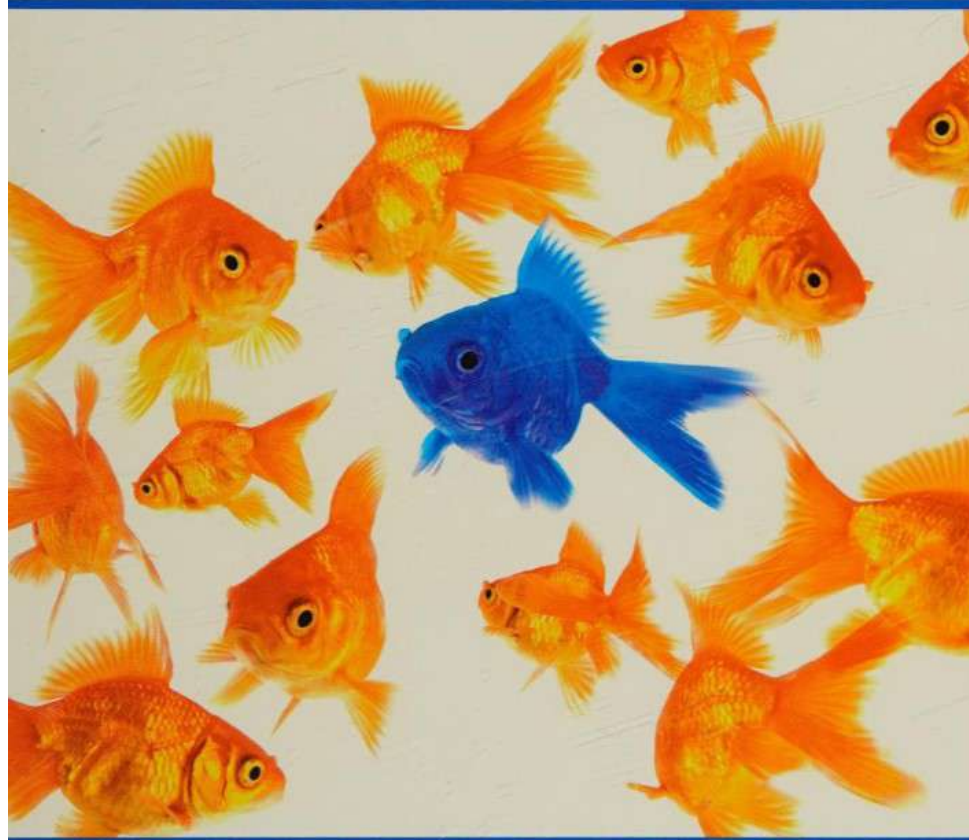


Making a Difference



Public Service Broadcasting in the
European Media Landscape

Christian S. Nissen
Editor

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Contents

	Preface by Václav Havel	vii
	The Contributors	ix
	Editor's Introduction	xiii
Chapter One	The European audiovisual industry at the verge of convergence André Lange	1
Chapter Two	Public media in service of civil society and democracy Slavko Splichal	17
Chapter Three	If not us, then who? Public service broadcasting and culture in the 21st century Karol Jakubowicz	35
Chapter Four	Can the market provide? Public service media, market failure and public goods David Ward	51
Chapter Five	No public service without both <i>Public</i> and <i>Service</i> – Content provision between the Scylla of populism and the Charybdis of elitism Christian S. Nissen	65
Chapter Six	Empowering the people: public media provides new means in education Claudio Cappon	83

Chapter One

The European audiovisual industry at the verge of convergence

André Lange

Introduction

In the last 20 years, the world audiovisual market has faced in-depth changes as the result of simultaneous moves in technologies, deregulation and internationalisation. Those three moves should be considered as an overlapping process – the increasing hold of capital over intellectual, cultural and entertainment activities. The emergence of digital technologies (digital cable, satellite and more recently terrestrial television, DAB, video games, Internet, webcasting, IPTV, mobile TV) is certainly a key factor in recent changes. However, reducing the evolution to the only dimension, in particular the technological innovation, would lead to a biased understanding of the general historical trend. In the audiovisual field, as in other human activities, technologies are not invented *per se*, but are conceived according to the society needs of the market in terms of increasing speed of capital circulation, investment productivity and military efficiency.

The effects of those changes on the overall quality of the system may be described as paradoxical: there is no doubt that the access to a larger scope of

Abstract: This article analyses the evolution of the European television market as a whole, indicating how the process of deregulation initiated in the early 1980s and the emergence of digital technologies have dramatically changed the landscape. Based on a detailed financial analysis of the accounts of around 500 television companies, it demonstrates that the current financial situation of the television branch in the early years of the 21st century is anything but flourishing. The sustainability of the dual model, typical of European television policy for 20 years could be under threat at the moment where IPTV, VoD and television to mobiles increase the competition and allow a come-back of telecommunications companies in the field of television activities.

contents was made possible, but on the same time one can identify a general trend, at the world level towards homogenization of the basic offer of cultural products proposed to consumers. Domination of the US audiovisual industry is, more than ever, commonplace in the world. The collapse of the Soviet Union and of the satellite regimes in Eastern and Central Europe has opened new markets to US audiovisual products. In traditionally closed market such as China, India and Arabic countries, US audiovisual products are progressively taking market shares through the supply of satellite pay-TV and pirated delivery. In Europe – as we will analyse it – the US industry has consolidated market shares in the classical distribution modes (theatrical released, non-unencrypted TV, video) and has found new access to niche markets such as pay-TV, PPV and VoD markets.

Current paradox is that, in a sense, the national cultural characteristics of a country are now more related to the way the basic offer of the world cultural industry is delivered, than to the capacity of this country to preserve and develop its audiovisual heritage. All countries have to position themselves vis-à-vis US domination. We will not analyse in this paper the progressive opening of national markets to US products in countries such as China or allied Arabic countries, nor the fierce resistant attitude adopted by countries such as Canada or South Korea but focus our investigation on the complex, and often contradictory developments of European television policy and market, illustrating the difficulties in identifying and implementing a coherent model of a democratic system, combining public and private initiatives.

Towards a European market and a European audiovisual industry?

In the mid-1980s, the hypothesis of the creation of a European audiovisual market was opening up possibilities of various economic scenarios. Twenty years or so later, it is possible to review three of those scenarios with the evidence of what actually happened.

A small number of European controlled pan-European channels

The first one was that pan-European channels, providing the same schedule to viewers of the whole continent would be possible, supported by pan-European advertising investments. The early attempts such as Music Box (re-branded in 1987 as SuperChannel) or Sky Channel were failures, mainly due to the then too small number of households not only able to receive the signal (at this time the Netherlands and Belgium were the leading countries in terms of cable penetration) but only likely to be interested by English speaking low-quality programmes. In 2005 very few pan-European TV channels financed by advertising and owned by European shareholders have a real existence: Eurosport and Euronews are almost the only ones. The other pan-European channels are

owned by US companies and financed by a mix of advertising, cable fee and sometimes subscription: CNN, TCM, Cartoon Network, MTV, Jetix ... Possibilities of channels crossing the frontiers are mainly used for linguistic areas (French speaking countries, German speaking countries, Nordic countries ...) or by US companies targeting Central and Eastern European markets with thematic channels (Discovery, Zone ...). Pan-European television remains then a marginal phenomena even if the number of channels designed for markets other than that of the country of emission is large (about 400 early 2006 according to the last European Audiovisual Observatory census) and if the effect of channels originating from other European countries is important to the audience market of small countries such as Belgium, Austria, Ireland, Denmark and Sweden.)

Scarcity of European groups with pan-European activities

The second hypothesis was that European groups could emerge, taking advantage of the size of European markets to better compete with US groups. In the mid-1980s, various groups were considered as possible European players: the CLT (Luxembourg), the Maxwell Group (UK), Silvio Berlusconi's Fininvest, Canal+ (France), the Kirch Gruppe (Germany) and the Swedish group Esselte, then owner of pay-channels in Nordic countries and Benelux.

The current situation demonstrates that this hypothesis has not been fulfilled. After a highly controversial entrance on the French market in 1985, followed by various changes of alliances with French partners, Fininvest had to withdraw. The early interest of the Italian group for the emerging markets of Central Europe did not lead to any real investment, German attempts were fruitless, and Spain is now the only country outside Italy where the group has significant presence (with the advertising channel Telecinco). The failure of the European expansion of Canal+ is even more remarkable. After the acquisition of Nethold in 1996, the French pay-TV group was controlling an empire including the Nordic and Benelux market, Poland, Spain and Italy. The group even succeeded in obtaining a 25 per cent of shareholding in BSKyB. But the too rapid expansion of its reference group Vivendi, including the merger with Hollywood major Universal, turned out as a complete debacle, obliging a complete desegregation of the empire, with Spain and Poland remaining the only foreign assets.

As a result, in 2005, the only pan-European TV group remains the RTL Group. Albeit the former CLT company had a complicated shareholding story – currently stabilised around an alliance between Bertelsmann and the Belgian bank GBL, controlled by Albert Frere – and disastrous investments in the German pay-TV market, the RTL group is now controlling television channels financed by advertising in Germany (RTL, RTL II), in France (the M6 group, including various thematic channels), in UK (Five), in Spain (Antena 3), in the French Community of Belgium (RTL-TVI), in Netherlands (RTL4, RTL5,

RTL7), in Luxembourg (RTL Lützerburger), in Hungary (RTL-Klub), in Croatia and has shares in channels in Portugal (TVI) and Russia (Renn TV).

This difficulty for a European group in obtaining and maintaining a European dimension contrasts with a more obvious trend: the expansion of US groups in Europe. New International, the group controlled by Mr Murdoch and main shareholders of BSkyB has obtained a licence for a terrestrial channel in Bulgaria and launched in 2003 Sky Italia, an Italian digital platform, build on the merger of the two former competitors Stream and Digital+, owned by Canal+. Other pan-European networks controlled by US interest have emerged: CME, the Bahamas-based company founded by Mr Lauder, a former US ambassador in Praha, has created a network of leading advertising financed companies in the Czech Republic, Slovakia, Croatia, Romania Slovenia and the Ukraine. The Luxembourg-based holding SBS, controlled by US pension funds, has launched various advertising financed channels targeting Scandinavia (Kanal 5 in Sweden, TV Denmark), Netherlands (SBS6), the Flemish Community (VT-4) and more recently has taken control of the former Canal+ operations in Nordic countries (C:More). Other US companies such as Discovery, National Geographic, Fox (with the former Fox Kids channel re-branded Jetix), Sony (with the film pay-TV AXN), Paramount (with various national version of 13Street and Paramount Comedy Channel), Zone (a subsidiary of the cable group UGC) have launched various linguistic versions of their channels targeting systematically Western, Central and European markets.

Weakness of the European programmes market

In the 1980s, the political willingness to develop the European audiovisual market was conceived as a possible answer to the hegemony of US TV soap-operas (*Dallas, Dynasty ...*) in the prime-time of almost all national TV channels in Europe, including the public services one. The idea of the European audiovisual market was supported by the idea that a second market would be created for national works that would find further sales opportunities in neighbouring countries. Economies of scale would then support the growth of a European programme industry. Co-production clubs between companies in the leading European countries were also created with the idea of producing ambitious TV series with pan-European release. The article 4 of the Directive Television without Frontiers was fixing as a political objective that 50 per cent of the programming should be of European origin.

Although the European Commission has published various reports showing the satisfactory implementation of articles 4 and 5 of the Directive TWF, the evolution of the European TV programme industry have been rather disappointing. Analysis of the TV fiction market in the five larger markets over a period of 9 years by Eurofiction has shown an increase of the volume of production and a come-back of national fiction in the prime-time of their national TV schedules. But there is no obvious indication of an increase of circulation of programmes.

The volume of European co-production has even regularly decreased from 1998 to 2004. Data collected by ETS on imported film and fiction programme broadcast by the hundred most important TV channels in Europe also demonstrate the continuing domination of the market by US programmes and the low level of circulation of European productions. The only real industrial success in the last few years was not in the field of TV fiction but in the field of reality shows with the Dutch company Endemol (taken over in 2000 by the Spanish telecom operator Telefonica) and of game show with the British Celador (*Who wants to be a Millionaire?*), both companies having demonstrated a great capacity for adapting format to the national markets.

The emergence of digital television

There are certainly various reasons why the European objectives (and dreams) of the 1980s have not been completely full filled. The main one is certainly the emergence of digital television. The dual model as conceptualised in the eighties was designed as the opposition of a small number of public channels to a small number of advertising financed private channels, with, in some case a complementary pay-tv offer mixing sports and films. This was still a model of scarcity. The arrival in 1994 of the MPEG-2 standard for video compression allowing a considerable increase of networks capacities has opened the possibility of a dramatic increase in the number of channels. A new function will appear: that of packager. The packager is a company playing a new editorial function of negotiating with a network operator (satellite operator, cable operator and later operator of a digital terrestrial multiplex) access to a platform. Creating this platform supposes an investment in decoders to be marketed to client households. To propose to the viewers a reason to subscribe to its services the packager will have to convince other broadcasters to use the same platform. In the early 1990s companies such as Canalsatellite (a subsidiary of Canal+) and Sky have anticipated the function of digital packager by proposing packagers of analogue channels for direct-to-home reception (DTH) or reception through cable.

Concentration process of digital platform

It was clear that this new function of packager, in direct contact with the customer through the management of subscriptions, was becoming the new strategic position in the TV field. In most of the big markets, competition rapidly emerged between competitor platforms, with the European Commission encouraging this competition by prohibiting large alliances between broadcasters and telecommunication operators. In 1998, a Deputy Director-General of Directorate General for Competition of the European Commission was proud to announce that the Commission had prohibited five mergers in the broadcasting sector, four of which were directly related to the creation of a unique national digital satellite platform. Investment costs to launch a digital platform were high: operators not only had to make hardware investment by ordering

set-top boxes to be then rented to clients, but they had also to create for their own new digital channels, purchase rights for sports and films, including for pay-per-view broadcasts. In a first step telecom operators were involved in the shareholding of digital platform: Deutsche Telekom in Germany, France Telecom in France, Telefonica in Spain, Telecom Italia in Italy, but they progressively withdrew, leaving the broadcasters at the mercy of their banks. In 1999 the Commission still vetoed the proposed merger between the two German platforms DF1 and Premiere, but the failure of DF1 a couple of months later led to a *de facto* concentration. The deficits of the digital platforms were so glaring, and the road towards failure so obvious that, at the end, the Commission had to accept, under some specific conditions, the merger of platforms in Poland (2001), Spain (May 2003), Italy (April/October 2003). In December 2005, the announcement of the merger between the two French platforms (with the hypothesis of TPS being taken over by CanalSat) seems to confirm the ineluctable nature of the concentration process. If this merger is accepted by French and European authorities, only the Nordic countries will remain with two competitors (Viasat and Canal Digital).

Concentration in the cable industry and early failures in the digital terrestrial television market

Cable-operators could have played a role of competitors to the operator of digital satellite platforms. From a theoretical point of view, they can play the same role of intermediary between publishers of channels and TV households. In some cases like the former French Compagnie générale des Eaux and Lyonnaise-Communications, they were even publishers of thematic channels. However, it was not really the case. In Spain, and to a lesser extent in France the level of penetration of cable did not allow cable-operators to play any role other than that of pure distributor. In Italy cable was – and still is – almost nonexistent. In Germany, where cable had grown rapidly in the eighties, the issue was mainly the privatisation of the Deutsche Telekom networks. In UK, Cable and Wireless, Telewest and ntl were able to take some initiative in pay-per-view services but were not in a position to face the rapid development of Sky Digital.

The major challenge for cable-operators was not competing with satellite packagers – they had more to make alliance with them – but to face the new competition with telecommunication operators and Internet Service Providers (ISP). The deregulation process launched by the European Commission* was indeed opening the possibility of the “triple play” offer, where telecom operators, cable operators and ISP will all be allowed to provide clients with telephony services, Internet services and delivery of TV signal. The direct effect of this

* Commission Directive 95/51/EC of 18 October 1995 amending Directive 90/388/EEC with regard to the abolition of the restrictions on the use of cable television networks for the provision of already liberalized telecommunications services, OJEC of 26 October 1995 No L 256: 49–54.

deregulation was the revalorisation of cable operators' assets but also their rapid taken-over by US companies (UPC/UGC/Liberty Media, Callahan and to a lesser extent Time-Warner). The most ambitious of them, UPC was able to take a large part of cable systems in the small countries, to block for a while Canal+' access to cable networks in Brussels and Amsterdam) and to create a rather substantial offer of pan-European thematic channels and pay-per-view services. This strategy was also done at high cost, leading the company to the verge of bankruptcy, to be finally saved by John Malone (Liberty Media), the US cable tycoon.

Another alternative to the hegemony of operators of digital satellite platforms could have been the development of pay-TV platforms in digital terrestrial television. This was the strategic option chosen in 1997 by the managers of Carlton and Granada to face Sky Digital hegemony by launching the digital platform ONDigital, later re-branded ITV Digital. But with a rapid counter-attack by Sky providing the set-up box free to new customers ITV Digital went rapidly bankrupt (2002), with a dramatic effect on the financial situation of the ITV companies, obliged to merge between themselves under a new US ownership.

The emergence of multi-channel platforms was also allowing the start of the race for the function of publisher of thematic channels. A similar failure process led in Spain to the rapid failure of the Quiero project. Since then, real operator of pay-TV platform has appeared in Europe as a competitor to satellite operators. In Italy, Mediaset and Telecom Italia had some rapid success in 2005 with the parallel launch of their soccer pay-per-view service (Mediaset Premium et La 7-Cartapiù), made possible by the condition laid down by the European Commission to authorise the take-over of Telepiù/Stream by Rupert Murdoch. But, at this stage, this seems more the exploitation of a “niche” than the acquisition of a long-term challenging position with Sky Italia. In UK, the pay-TV offer of Top Up Tv, with only 13 channels, does not look like a real solid competitor to Sky. In France, the launch in November 2005 of pay-TV service on DTT is done by Canal+, in alliance with the Lagardere Group and does not constitute competition to the CanalSat offer, quite the contrary.

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

After this overview of some of the main trends in the European media market, let us now have a closer look at the economic performance of the companies operating in the market. The European Audiovisual Observatory analysed the annual accounts and balance sheets of around 550 television companies for the years 1999–2003. The Observatory divides television companies into six main categories as presented in Table 1. In the following the key figures will be commented on.

Table 1. *Economic performance of European Union television companies analysed by the European Audiovisual Observatory (2003)*

	Number of companies	Operating revenue (EUR million)	Average annual rate of growth (1999–2003)	Profit margin (2003)
SPTV	79	27,440	2.16%	-1.5
ADTV	76	18,292	1.44%	10.2
PAYTV	27	3,332	1.36%	4.5
PACKTV	36	10,274	18.83%	-9.6
THTV	236	3,405	10.43%	-10.8
HSTV	35	1,782	11.56%	-0.9
Total	489	64,528	4.47%	0.4

- SPTV** Public radio-television companies 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.
- ADTV** Private television companies financed through advertising. This category includes generalist channels, usually broadcast terrestrially.
- PAYTV** Television companies offering film pay-TV channels includes the Canal+ channels, but not companies which mainly produce packages of channels.
- PACKTV** Programme packagers. 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.
- THTV** Thematic television companies. These companies publish one or several thematic channels targeting a single national market or various markets in Europe.
- HSTV** Home shopping companies may be actual broadcasting companies (QVC, HSN, etc) or broadcasters' home shopping subsidiaries.

The overall number of active companies has increased in the period 1999–2003 by 87 to 489. 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 company*.

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 per cent. The sector as a whole achieved a small but positive profit margin in 2003 (0.4 per cent compared to -5.7 per cent in 2001 and -3.7 per cent 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.

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 Britain**.

The yearly average growth of 4.4 per cent is fairly disappointing compared to the two-figure growth rates enjoyed by the sector in the 1980s and 1990s (it was still 10 per cent in 2000). The poorest growth figure was recorded in 2002 (0.4 per cent), although it rose to 3.2 per cent in 2003.

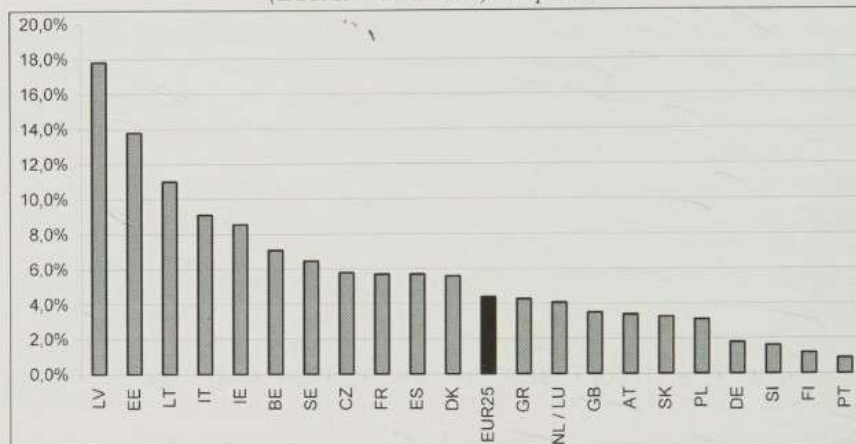
The digital television packagers category (PACKTV), with an average annual growth rate of 18.8 per cent, has contributed most to the growth of the market. However, the development of a free multi-channel service via digital terrestrial television could curb the growth of digital pay-TV platforms in the coming years.

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. On the other hand, home shopping channels, whose margins deteriorated in 2000 and 2001, seem to have become profitable again.

* 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.

** 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.

Figure 1. Yearly average growth of television companies in the European Union (EUR 25 – 1999–2003) – in per cent



Source: European Audiovisual Observatory.

The low average growth rate (1.4 per cent) 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 per cent in 2000 to 7.2 per cent in 2002. The rate of return on shareholders' funds also fell from 66.3 per cent in 2000 to 22.1 per cent in 2002, before climbing to 28.4 per cent in 2003.

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 per cent in 2001 to 0.5 per cent 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 per cent), reaching a peak of 198,400 in 2001 before dropping by 1,800 in the space of two following years;*

- The financial operations deficit was cut from EUR 1.4 billion in 1999 to EUR 120 million in 2003.**

Looking at the national markets there is significant differences in the *profit margins* and their developments over the years 1999–2003 as seen in Table 2.

Table 2. Profit margins of national television systems in the European Union (1999–2003)

	1999	2000	2001	2002	2003
Denmark	-2.0	1.1	1.3	-0.8	10.4
France	3.2	5.9	6.7	5.7	5.4
Sweden	-4.4	-3.0	-9.2	-4.1	4.4
Estonia	-53	-31.1	-18.5	0.3	4.1
United Kingdom	1.3	-2.8	-7.9	-3.7	3.3
Germany	1.1	0.9	-3.0	2.4	2.2
Ireland	37.59	-5.38	-16.32	-7.39	0.3
Belgium	0.6	3.8	-0.1	-0.3	-1.7
Poland	-10.5	-18.1	-18.3	-42.3	-1.2
Austria	1.9	-2.4	-1.3	-5.1	-3.7
Netherlands	0.2	1.6	-7.2	-5.4	n.a.
Italy	-4.2	-7.2	-12.1	-10.6	-6.9
Greece	1.9	-0.5	-2.4	-5.2	-7.2
Finland	-7.9	-9.8	-29.3	-21.9	-11.3
Spain	-13.8	-16.2	-24.1	-23.6	-15.4
Portugal	-20.9	-30.0	-70.5	-57.6	-17.5

Source: European Audiovisual Observatory.

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

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

** 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.

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 per cent in 2005 and 4 per cent in 2006. Growth in TV adspend is expected to be slightly higher (3.9 per cent in 2005, 5.1 per cent 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 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. These perspectives will be further illustrated later in the article.

Public Service Broadcasting in a commercial media market

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, the European Parliament and the 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. The financing of the public sector demonstrates another form of diversity in the European public sector. 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.

The licence fee remains the most prevalent form of financing public service companies. But the licence fee does not exist in Luxembourg, in Greece (where instead there is a tax on electricity), nor in Spain. The television licence fee has also been abolished in Portugal, in the Netherlands, and, most recently, in the Flemish Community of Belgium and in the Brussels Region. In these four latter cases direct subsidy is provided in the absence of the licence fee. Grants, or contracts with the public authorities, are sometimes given for specific services, particularly for international services.

Finland is the country where public income is proportionally the largest (some 94.5 per cent of YLE's income in 2000). Next come Greece (around 90 per cent), Sweden (88.4 per cent in 2000), and Germany (79.7 per cent). France (65.9 per cent) and the United Kingdom (65.4 per cent) have public financing percentages close to the European average, but with very different arrangements for allocating the resources between the various public sector companies.

Public income (licence fee, grants ...) does not, however, necessarily constitute the main form of financing for the public service broadcasting companies. In the United Kingdom, Channel 4 draws all of its income from commercial activities (advertising, sales of programmes and pay-TV channel FilmFour). The proportion of commercial income is greater than that of public income for the Austrian ORF, the Spanish RTVE and the Irish RTE. It is also the case for RAI since 2000, notably as a result of the growth in the activity of its subsidiary RAISAT which operates theme channels.

Furthermore there has been, throughout Europe, a growth in commercial income (from 28.4 per cent of all income in 1995 to 32.3 per cent in 2000) to the detriment of public income (which fell from 69.1 per cent in 1995 to 65.4 per cent in 2000).

Public television companies recorded average growth of 2.2 per cent during the period 1999–2003, although the figures were very low in 2002 and 2003 (0.7 per cent and 0.3 per cent). Those in the Baltic countries enjoyed the largest average growth figures (39.9 per cent in Latvia, 22.2 per cent in Estonia, 6.6 per cent 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 per cent during the period, while in Portugal RTP's revenue dropped by 5.1 per cent. In 2004, however, the situation of RTP improved tremendously thanks to a revenue increase of around 31.5 per cent. 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, in terms of audience market shares the situation of public television companies varies hugely from one country to the next. In Denmark, the five public owned channels still accounted for 69.3 per cent of the market in 2004, while in the Baltic States and Greece, the public service holds less than a 20 per cent 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 per cent in Spain and Poland, between 47 and 48 per cent in the United Kingdom, between 43 and 44 per cent in Germany, between 41 and 42 per cent in France and between 44 and 47 per cent in Italy. These stable market shares are generally achieved thanks to the addition of thematic channels by public service broadcasters, which give 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 per cent 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.

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.

Towards a further complexity: convergence becomes a reality

Convergence between the telecommunication, IT and audiovisual industries is a trend that began at the end of the 1980s for various analysts, engineers, managers and politicians. The end of the "Internet bubble" in 2000 or the collapse in 2002 of the ambitious project of convergence announced by Jean-Marie Messier, the leader of Vivendi-Universal have created some doubts about the reality of the process. However, the year 2005 has seen important developments in the world in general and in Europe in particular on the implementation of new audiovisual services (IPTV, video-on-demand, television to mobiles). Those new services are enabled by the increasing importance of digitised transmission of television services by cable and satellite but also by the launch of new forms of transmission (digital terrestrial television, broadband Internet, 3G network, DVB-H). The census of European television channels has seen a further increase of the number of TV channels (+14 per cent between early 2005 and January 2006 according to the European Audiovisual Observatory last census).

The impact of convergence may be more important for the programmes rights market than for viewers' habits. The fact that telecommunication companies (as it is already the case in Belgium and in Germany) are present in the race for football rights is of course a new concern for broadcasters, public and private. However, from the audience side, one can make the assumption that, for a long time, television will still remain television. The majority of viewers will certainly continue for a long time to watch the generalist channels (public or private) as a first choice. Success of television in the 1960s, after all, was not about quality – which public broadcaster could claim that all programmes in the golden years of monopoly were daily of a high level quality? – but about social integration. Viewing mainstream channels will probably long remain the way by which large parts of the population choose to be in contact with the world, whatever the content, whether it makes sense or not.

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