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Britain gets programmed by America

The communications bill has sparked fears of a decline in programme quality, write **Ashling O'Connor** and **James Harding**

From the moment in 1930 when Luigi Pirandello's *The Man with the Flower in his Mouth* became the first live television play, Britain has claimed the broadcasting high ground. Politicians like to boast that UK television is envied around the world.

Viewers brought up on programmes such as *Brideshead Revisited*, *Monty Python's Flying Circus* and *Jewel in the Crown* ~~tend to sneer at tacky Italian~~ game shows and plastic US dramas punctuated by too many commercials. Above all, the British Broadcasting Corporation believes that it sets the standards for the world's public service broadcasters.

But this week, Tony Blair's government announced it was opening up the high ground to all comers. The new communications bill, sweeping away the barriers to entry for non-European Union companies to buy terrestrial broadcasters, would allow US media giants to buy British commercial broadcasting groups.

There is already some fretting among the guardians of British television. "We are desperately concerned about these proposed changes. The ramifications are colossal. It will represent a gradual and subtle erosion of cultural values and indigenous production," says Jocelyn Hay, chairman of the Voice of the Listener and Viewer lobby group.

The quality of US news is a particular concern. US media groups, so the argument goes, would be more interested in making money than safeguarding editorial standards. The line dividing news programming and talk show television could become increasingly blurred. Mark Thompson, the new chief executive of Channel 4, has complained about a television environment dictated by big money.

Mr Thompson fears that if ITV or Channel 5, the two commercial broadcasters, are bought by the likes of Viacom or Disney, Channel 4 would lack the financial muscle to compete. The government might then be tempted to sell off the state-owned channel, which has been a champion of innovative programming.

Not everyone is convinced that American necessarily means worse. Many television executives – and viewers – have developed more than a sneaking regard for US programmes. "Find me someone [who] understands TV and does not appreciate ground-breaking series such as *The Sopranos* and *The West Wing*," says Michael Green, chairman of Carlton Communications, one of the two companies that dominate the ITV network.

Carlton and Granada, the other controlling shareholder in ITV, lack the programme-making resources of companies in the far bigger US market. If the companies were acquired by a US backer stepped in, that could increase the financial backing for programme-making. "If big American companies want to buy in, why not?" asks Tessa Jowell, the culture secretary. "Supposing Disney bought ITV, it would be liable for the same public service broadcasting obligations that Carlton and Granada currently have." Bertelsmann, the German ~~media group, already controls~~ Channel 5. There have been persistent criticisms of its programming quality but few analysts put this down to ownership.

Some of those who admire the best of US television argue that the average quality of programming is lower than in the UK. Jana Bennett, the BBC's new director of television, has joined from the Discovery channel in the US. She sounds a note of warning about the lack of range in the US market. Mrs Hay concurs. "Some of our US imports are excellent but they are very much the cream of what is a huge collection of available product. Fortunately, we are spared a lot of the dross," she says.

US companies insist that it would make little sense to flood the airwaves with a homogenous diet of Americanised pap. MTV, the music channel owned by Viacom, argues that the secret to its global expansion has been the opposite of the McDonald's formula. It says it has championed

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local music and artists rather than trying to impose American tastes.

"Whether a business is based here or overseas, they would tailor what they do to the market," says Tony Ball, chief executive of British Sky Broadcasting, the British pay television arm of Rupert Murdoch's News Corporation. Others say that programming has to be based around things that are recognisable to the majority of viewers.

"You serve your audience by providing them with what they like," says Roger Parry, British chief executive of the international arm of Texas-based Clear Channel, the biggest US radio group. "You can achieve the objectives of plurality and diversity and open up ownership."

Some modesty may also be in order among executives of commercial British television. The BBC, which has an annual budget of more than £2bn, has managed to export many costume dramas to the US, as well as children's characters including the *Teletubbies* and *Bob the Builder*. But commercial groups have had limited success with efforts to export their programmes – certainly less than the Home Box Office cable channel in selling programmes such as *The Sopranos*.

Mr Ball says that he sometimes misses the palm trees of Los Angeles and the dynamism of the US media market when sitting in his office in the London suburb of Isleworth. He has little time for the idea that Britain is better off without foreign influence. "I do not think it [British television] could be any worse."

The Times (Business & Sport)
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Week in the City

Shake-up paves way for TV bid battle

The National Audit Office began preliminary investigations into whether contracts linked with partial privatisation of London Underground represent good value. The move comes after it emerged that some companies poised to take over running the Underground this summer could net up to £6 billion on an initial outlay of just £70 million.

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LOMBARD

MARTIN DICKSON

Media bill: like the Simpsons without Homer

BBC, Channel 4 and privatisation

It is a case of Hamlet without the prince or *The Simpsons* without Homer: the communications bill published this week is a good yarn so far as it goes, but a central character is largely missing from the plot: the state-owned industry, encompassing the BBC and Channel 4.

The bill makes many sensible moves to deregulate the commercial British broadcasting industry, allowing the ITV companies to merge and opening the way for them to be taken over by large US media companies. It will also set up a new regulator, Ofcom, to replace five existing ones.

But it will only marginally touch the BBC and Channel 4, even though the former is Britain's most powerful broadcaster, with an annual subvention of more than £2bn in licence fees, and has a huge impact on the overall market. What should be a central policy issue is simply not being addressed: the role of the state and whether the BBC and Channel 4 should be privatised.

The rationale for the state backing of both is that they provide quality cultural material that the private sector will not and give huge financial support for industry independents.

But in the search for ratings the BBC has dumbed down so far that much of its output is indistinguishable from the commercial channels. The rot is moving fast from BBC1 to the supposedly more upmarket BBC2, which this week devoted a prime time slot to a documentary about a model whose sole claim to fame is the size of her breasts.

Channel 4, required to be innovative and serve minority tastes, has certainly been creatively successful. Not much of its domestically-generated content would have found a home on the commercial channels. It has undoubtedly filled a gap.

But, like the BBC, there are signs of strain between the need to attract viewers – *So you think you want... bigger boobs?* was one recent offering – and its public service obligations. And, again like the BBC, its expansion plans have strained its finances (it recently reported a £28m pre-tax annual loss for 2001) and taken it into areas of dubious public interest, such as a racing channel.

The bill does touch on the BBC and Channel 4, but in ways that point up the unsatisfactory nature of the present situation. For example, Ofcom is meant to regulate the market, but it will have only limited powers over the BBC. The government has yet to spell out just what these will be, but says the BBC's governors will retain their existing core responsibilities.

As for Channel 4, one of its weaknesses is a lack of financial accountability over its use of public subvention (free spectrum) to set up new ventures. The bill will give Ofcom a role here, but seemingly a not much more powerful one than its predecessor regulator. Channel 4's accountability will remain unsatisfactory.

Questions about the purpose and governance of the BBC and Channel 4 are likely to intensify if the commercial channels get taken over by deep-pocketed foreigners: the BBC will be caught in an even more frantic ratings battle, while Channel 4 may lose both advertising and some of its best American programme imports, such as *ER*.

There is certainly a strong case for publicly funded broadcasting in Britain. But large parts of the BBC and Channel 4's output would sit much more happily inside privatised companies. And, as I have argued here before, a privatised, deep-pocketed BBC would give Britain a real competitor on the global broadcasting stage.

The BBC's charter is due for renewal in 2006 and it is unrealistic to expect any shake-up before then. But a debate needs to be started on privatisation versus public broadcasting, and it should look at the matter in the round, involving both the BBC and Channel 4. One public service broadcaster is enough.

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More toys for the media boys

The Communications Bill has finally come out of the nursery – and its nannies have actually relaxed the rules, writes **George Trefgarne**

Pol. ownership

THE omens were not promising for the draft Communications Bill this week. It had not one, but two nannies responsible for its upbringing: Nanny Hewitt at the Department of Trade and Industry, and Nanny Jowell at the Department of Culture. They have the kind of schoolma'am manner which, you could be forgiven for thinking, delights in pushing the media around the park, occasionally giving it a quick smack.

The Bill had been stuck in the nursery for five years, ever since it was first proposed in Labour's 1997 election manifesto. And a White Paper in December 2000 suggested strict powers for the new super-regulator, Ofcom, which it could use to discipline the media (an activity beloved of politicians everywhere).

Then, thwack!, the draft emerged on Tuesday. At first glance, it looked like another Labour special: badly drafted, complex and authoritarian. The nannies had been hard at work, producing 300 pages, 259 clauses, 13 schedules, two supplements and several press releases. Our hearts sank.

But hang on, what was this? Looking through the Bill, it soon became clear that far from unleashing the apparatchiks, the nannies were flicking their feather dusters into the farthest corners of the communications industries for a bit of spring cleaning. Rules that had wrapped enterprise in cobwebs are being swept away. Assuming it is enacted without too many changes, the Bill will make Britain the most open of the world's media markets. It is a media Big Bang.

In particular, the foreign ownership ban, which stops non-EU companies owning British broadcasters, is to go. The media was the last protected industry, but it will now be exposed to foreign competition, influence and even takeovers. Britain will be the only country in the world to have such a laissez-faire regime. Even the US has restrictions on foreign ownership of its television stations, which is why Rupert Murdoch is now an American citizen.

One executive at the top of one of Britain's biggest television groups admits his eyes were watering when he read the Bill. "The Government has hoisted a giant For Sale sign over the British media," he says. Even the North Korean politburo is not ruled out. Most chief executives are delighted, but are worried they could now be vulnerable to big foreign groups. Says one: "They have been far braver than we thought they would be. But I just hope they haven't sold us all out."

The excitement in the City, where investment bankers are even now doing what investment bankers do and trying to justify lucrative deals, was palpable. Lorna Tilbian of Numis Securities, who has been following the ups and downs of media regulation for over a decade, said: "The extent of the deregulation, particularly the lifting of foreign ownership restrictions, has come as a surprise. The Bill is dramatically more liberal than we were expecting. Everyone is a winner."

Among the dust being brushed aside are rules that forbid ITV companies to have more than 15pc of the audience or own both London franchises. This last was expected, and would allow Carlton and Granada to merge, perhaps within months. However, Granalton would have nearly 60pc of the TV advertising market, far more than the share allowed by competition authorities. Some synthetic – and convincing – competition would have to be generated.

The points system that puts a 15pc ceiling on audiences for radio companies is going, along with the bar on newspaper companies owning radio or television. Daily Mail & General Trust would be free to buy the rest of GWR, which runs Classic FM. Local radio will still need a minimum of three owners plus the BBC – a restriction that could cramp the expansion of companies such as Capital Radio, which wants to buy Emap's radio assets. Capital is expected to lobby against this new rule vigorously.

The existing licence regime for telecoms will be replaced with a new standard, and broadcasting spectrum will be tradeable. The principle of the Bill is that the media should, for the most part, be regulated by normal competition law, just like any other industry. Not surprisingly, shares in media companies, long depressed by the end of the dotcom bubble and the worst advertising recession in living memory, perked up on hopes of takeovers.

There were the predictable howls about the great hate-figure, Murdoch. His News International already owns both *The Times* and *The Sunday Times*, plus *The Sun* and *The News of the World*. It owns 38pc of BSkyB. His face was the obvious way to illustrate the story on the BBC news. Currently, a major national newspaper group cannot own a terrestrial broadcaster. It soon could, although newspaper owners are still barred from controlling a big ITV company. Murdoch could also move seriously into radio.

Neil Blackley of Merrill Lynch does →

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not share the City's euphoria. "The way now looks clear for TV groups like Granada and Carlton to merge," he says. "Radio stocks could bounce, but we believe potential acquirers might find it hard to justify substantial takeover premiums on top of the high prices companies like Capital and GWR already trade at."

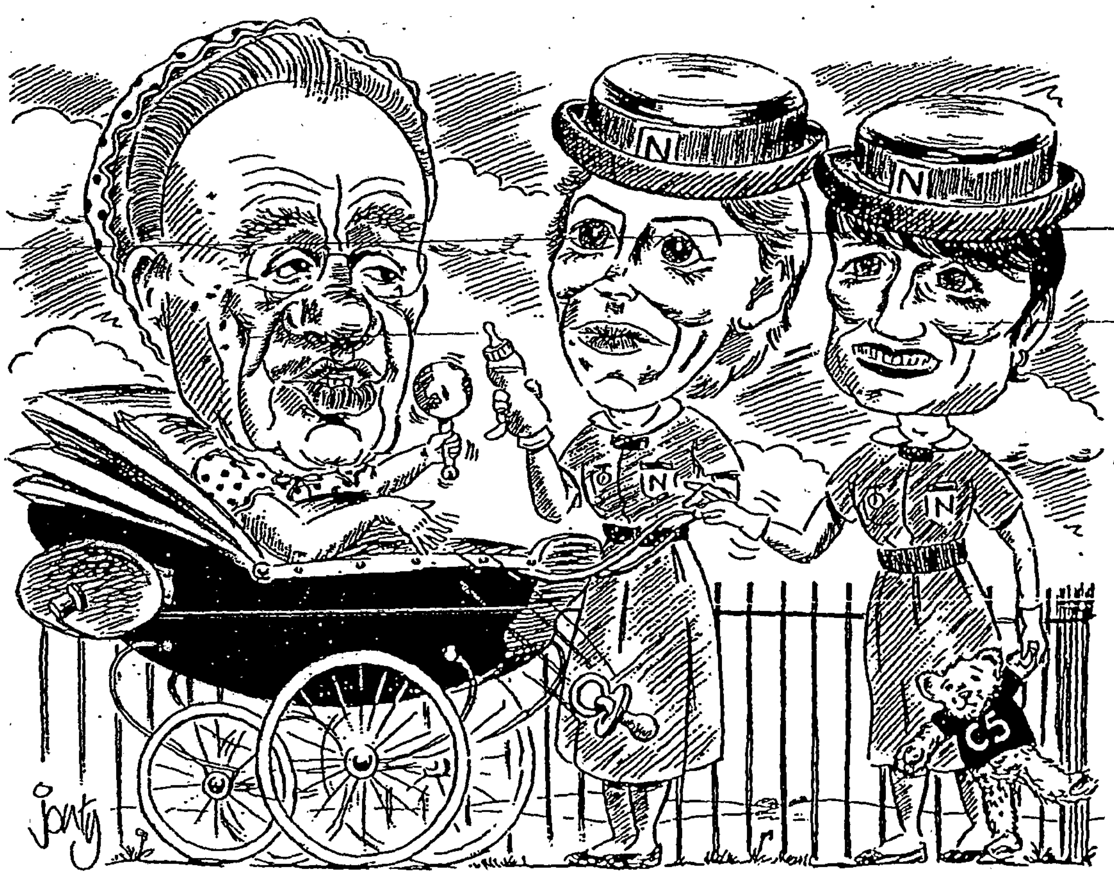
The Bill is not a complete free-for-all: The new regulator, Ofcom, will be a formidable force with 1,100 staff and a budget of £118m, formed as it is from existing quangos like the Radio Communications Agency and the telecoms regulator Oftel. Ofcom will also have a Content Board, which sounds straight out of the 1940s. It will regulate taste and decency on the airwaves, covering the BBC for the first time.

New Labour cronies such as Baroness Jay, the former leader of the Lords, are said to be manoeuvring to chair either Ofcom itself or the Content Board. That is not surprising: both positions will be high-profile and will carry immense influence. However, Ofcom's powers to seize documents and levy fines are mostly restricted to matters concerning competition.

Once the Bill is passed – and that could take two years, as it must first be scrutinised by a joint committee of both houses – no other country will have such open media laws. The risk is the accelerated Americanisation of our culture, as happened to investment banking following that other Big Bang in the City of London in 1986.

These worries look spurious. The Content Board will enforce the public service aspects of broadcasters' licences. Nanny will smack the bottoms of those who misbehave. There will still be the BBC, flying the flag in its curiously unpatriotic way. Furthermore, American media giants such as AOL Time Warner and Disney are in no shape to spend money. When they do come, they will bring with them investment and innovation, as the Japanese did to the car industry.

Britain has thrived by being a free trading nation with an open culture. This has helped make English the lingua franca of the modern world, put Jane Austen on bookshelves from Beijing to Boston and given Manchester United a worldwide fan base. Mrs Jowell and Mrs Hewitt are building on that tradition and should be congratulated for their handiwork. The British media is robust enough to withstand foreign influences – with or without Nanny's help.



FINANCIAL TIMES
10 May 2002
FINAL EDITION

Jowell fears for quality of news at ITN

By Ashling O'Connor and Carlos Grande

Tessa Jowell yesterday voiced concern about the quality of commercial broadcast news in the wake of the most liberal piece of proposed media legislation for more than 25 years.

The culture secretary said the value of the contract for Independent Television News to provide programmes to ITV, Channel 4 and Channel 5 had fallen by "more than people accept".

ITN was forced to lower its price from £45m a year to £36m to stave off competition from Rupert Murdoch's British Sky Broadcasting.

Its budget has fallen by half over 10 years, stoking fears about its ability to produce impartial news on a par with the BBC. Channel 4 News anchor Jon Snow described the cuts as "woeful" and "dangerous".

The draft communications bill published earlier this week proposed to retain the role of a nominated news provider for ITV, which would have to provide "adequate financial support".

It also suggested an independent provider for Channel 5 if the broadcaster gained significant audience share. Media insiders suggested this was designed to offset the power of Mr Murdoch's media empire if he ever owned Channel 5.

The move to retain a nominated news provider ignored lobbying by commercial broadcasters for it to be scrapped. Instead, the treatment of news as a special case stands out as the most regulatory aspect of an otherwise deregulatory bill.

Granada and Carlton Communications, the ITV companies that have minority stakes in ITN, want to own it outright, as in the US system. Shareholders will be allowed to own up to 40 per cent, but ITV collectively cannot have control.

With non-European Union buyers to be allowed to buy into British media, there are worries about the erosion of standards in public service broadcasting.

Ms Jowell yesterday acknowledged that US companies would "not be expected to share the same content priorities as we do".

Her remarks came as Channel 4's chief executive said the bill made privatisation of the station more likely. Mark Thompson warned industry executives that the bill, which opens the UK television sector to greater consolidation and US investment, could threaten homegrown independent broadcasters and producers.

Mr Thompson told an audience at the Royal Television Society on Wednesday that the bill had "disturbing themes". He warned it could allow bigger companies to dominate the market.

He added: "Parts of the bill make it more likely that privatisation will happen. I think the government's intention is to strengthen Channel 4, but if you look at the bill you would wonder if they are doing that."

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BSkyB gains from ITV Digital woes

By Ashling O'Connor, Media Correspondent

British Sky Broadcasting expects to gain up to 300,000 ITV Digital customers following the collapse of its pay-TV rival.

The satellite operator, reporting strong third-quarter subscriber growth yesterday, said there had been a "lift" to its business since ITV Digital was put into administration seven weeks ago.

Net subscriber growth in the three months to March 31 was 171,000, bringing its customer base to 5.9m and putting the company controlled by Rupert Murdoch's News Corporation well in front in the pay-TV market.

Turnover rose 21 per cent to £707.6m (£585.1m). It made a pre-tax loss of £26.4m (£40.8m loss) after a one-off charge that included a £22m operating provision against money owed by ITV Digital.

Tony Ball, chief executive, said: "The only [ITV Digital customers] we are interested in are the kind that take premium services. Their subscriber base was pretty poor.

"We should be able to pick up a fair proportion. There definitely has been a lift."

The news will disabuse the market of any preconception that BSkyB would not benefit from the failure of ITV Digital, which had 1.26m customers at its last count.

Executives at the company have been careful not to appear to be dancing on the grave of ITV Digital, particularly with a finding looming from the competition authorities that it has abused its market dominance in the provision of its channels to rivals – a charge it denies. Indeed, BSkyB will forfeit about £64m a year in wholesale revenues from the provision of Sky channels to the digital terrestrial TV (DTT) platform.

Mr Ball said there would be competition issues if BSkyB were to bid for ITV Digital's pay-TV licences, which are being re-auctioned by the TV regulator.

"They're not particularly attractive anyway," he said.

Bidders have until Thursday to register their interest in the DTT licences with no UK media groups reported to have come forward.

Mr Ball damped investor enthusiasm for a potential bid for Channel 5 following the government's proposal that News International, the newspaper arm of Mr Murdoch's media empire, could own the terrestrial broadcaster. It would be a powerful cross-promotion vehicle.

But Mr Ball could not resist a pop at the government for preventing News Corporation from buying ITV when other US network owners will be able to. "BSkyB is the only one on the planet that cannot buy ITV," he said. "The Taliban can buy ITV but we can't."

● BT Group cashed in BSkyB shares yesterday worth £70m as part of a staggered-exit from its holding stemming back to a joint venture last May. BT sold 9.5m shares at 733½p.

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THE LEX COLUMN

BSkyB

British Sky Broadcasting has taken care not to dance on ITV Digital's grave. It is already facing a probe into its charges for providing content to other pay-TV operators. Drawing further attention to its strength would only increase scrutiny. Instead it focused yesterday on a £22m exceptional loss on its contract to supply channels to ITV Digital and the £65m of annual revenue it will now forgo.

But behind the scenes it must be dancing a jig. BSkyB should pick up ITV Digital's 300,000 premium subscribers. About £340 a year from each would offset any profit hit within a few years. BSkyB also gets to see the back of a maverick bidder for sports rights. The price of prime content, such as the £1.1bn rights to the Premier League, should drop sharply. With cable competitors still flat on their backs, BSkyB is free to accelerate away. Subscriber growth is still strong and it pushed through a 7 per cent price rise in January without a noticeable increase in customer churn. The business looks poised to turn into a cash machine.

Believing in jam tomorrow has cost investors dear since 2000. BSkyB, with a £13.5bn market capitalisation, still makes a pre-tax loss. There is a risk it will be tempted by new cash consuming growth opportunities outside its core business. Add regulatory uncertainty, plus a technical overhang from Vivendi Universal's remaining 14 per cent stake, and investors might wait for a clearer picture. But long term, the story looks increasingly attractive.

The Guardian
11 May 2002
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BSkyB eyes Channel 5

John Cassy

Tony Ball, chief executive of BSkyB, has admitted that a takeover of Channel 5 "could be interesting if the price was right".

In an interview with the Guardian, he played down the prospect of the Murdoch-controlled satellite network bidding for the terrestrial channel. "It's not for sale, as far as I know, so there's nothing going on. But it's not really clear to me what the present owners want to do with it, so there could be movement," Mr Ball said, after reporting quarterly results that met expectations.

"Everything does have its price, but for me it's not necessarily the most glamorous route or best use of shareholders' money unless you could do something different with it: maybe promotion or essentially the ability to run it in conjunction with a pay service."

Mr Ball was responding to this week's announcement of the draft communications bill, which opened the door to a BSkyB bid for Channel 5.

Analysts believe BSkyB could use Channel 5 as a vehicle to give viewers without a satellite dish a taste of pay-TV. However, 65% co-owner Bertelsmann has made a long-term commitment to the channel, while United Business Media, which holds the balance of the shares, is in no hurry to sell.

Mr Ball said his priority was to increase margins and profitability in BSkyB's core business. "We have a lot of space to get these margins back to the levels we had before our digital investment," he said.

BSkyB will look to reduce programming costs in sport and movies as part of that push towards greater profits. "We've already begun to be more selective in what we're buying," Mr Ball said.

"We probably won't go for the FA Cup, perhaps we'll drop one of our film studios and we're optimistic of getting lower rates from the channel deals we have coming up for renewal, but we'll still bid for the real premium content."

Figures for the three months to March 31 show revenue climbed £132m to £708m as the company added another 171,000 subscribers to 5.9m. Average revenue per user climbed 11% to £341 per year and Mr Ball reiterated his target of £400 by 2005.

The growth helped the company return to the black and record a pretax profit before exceptional items of £11.6m. Cash generated through the business allowed £140m of debt to be paid down.

BSkyB was forced to take a £29.2m charge due largely to the collapse of ITV Digital and monies owed for programming bills by its failed rival.

Finance director Martin Stewart said the number of ITV Digital customers switching to BSkyB could reach 300,000. "The short term pain will be outweighed by the long term gain," he said.

Shares in BSkyB fell 28p to 714p. Analysts said a solid set of numbers had been overshadowed by BT's decision to sell 10m shares it owned in BSkyB, a shareholding from its days as a partner in the broadcaster's interactive service Open.

Investors are also fearful that troubled Vivendi Universal may seek to sell some of its BSkyB shares in an effort to cut its debt.

Hopes of finding a buyer for the free-to-air digital terrestrial television licences vacated by ITV Digital are understood to be hanging on a knife-edge. Few parties have expressed interest in the licences and the only credible inquiries are reported to have come from abroad.

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11 May 2002
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BSkyB aims to sign up every other home

By George Trefgarne

TONY Ball, chief executive of BSkyB, claimed yesterday that 12m British households – or half the country – could one day be subscribers to the satellite broadcaster.

Mr Ball has already said he wants to sign up 7m customers by 2005, but he has now set an even more ambitious goal. "Over 90pc of households have multi-channel television in America. It took 20 years but I don't see why we can't have that here. I would aim for Sky to have comfortably over half the market share."

The goal excludes those who receive Sky channels via cable companies, currently about 5m.

Mr Ball made his bold claim – which would involve more than doubling the current subscriber base – as he unveiled results for the nine months to March, which showed the company has started to make a profit at the pre-tax level and pay back its £1·8 billion debts run-up in the digital television wars.

Pre-tax profits before exceptional items were £11·6m, compared with a loss of £105·1m this time last year. Sales were up 21pc in the last nine months to £2 billion.

The collapse of ITV Digital, which carried Sky, is expected to cost £60m in lost revenues and incur a £22m write-off for programming already supplied.

Mr Ball said that Sky had added 171,000 new subscribers, taking the total to 5·9m. Average revenue per user was up 11pc to £341, following price increases earlier in the year. He wants to reach average revenue per user of £400 by next year, which suggests more price rises are on the way.

Following the publication of the draft Communications Bill this week, Sky may now be free to buy Channel 5, but Mr Ball said: "As far as I know it's not for sale and anyway, there are no talks going on."

Mr Ball has long cherished an ITV company, like Carlton or Granada, but he is still barred from buying one as Rupert Murdoch, who controls 38pc of BSkyB, has such large newspaper interests in the UK.

Mr Ball said: "Everyone can buy ITV except us. Even the Taliban."

Sky is also free to go into radio. "We've got no immediate plans," said Mr Ball. "But Sky is already the biggest broadcaster of digital radio in this country."

The Times (Business & Sport)
11 May 2002
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BSkyB sales surge

BSkyB said yesterday that new subscription sales for the t months to the end of March surged by 171,000 to 5.9 milli However, shares in the company, in which The News Corporation, parent company of *The Times*, has a 36.3 per stake, fell 28p to 714p after the group reported a pre-tax lo for the period of £1.27 billion. The loss included a £22 milli provision against losses relating to the collapse of ITV Dig Programme costs for the period increased by £215 million t £1.04 billion, mainly because of the new Premier League de

The Independent
11 May 2002
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Sky distances itself from Channel 5 bid

BY NIGEL COPE

BSKYB, the satellite television broadcaster, appeared to distance itself from a possible bid for Channel 5 yesterday despite the relaxation of cross-media ownership rules in the Communications Bill earlier this week.

As Sky reported a sharp rise in operating profits for its third quarter, a Sky spokesman said: "We believe strongly in the pay model for television. Our focus is very much on that model." The company said the same view applied to the radio sector.

Sky said it was already starting to see a boost to subscriber numbers after the collapse of ITV Digital last month.

Sky expects to see a bigger pick-up when the new football season approaches in August. Some analysts have estimated that Sky and the cable operators stand to gain 150,000 to 200,000 former ITV Digital subscribers.

The group indicated it had no interest in buying up the television rights to the Nationwide Football League, which was contracted to ITV Digital.

The comments came as Britain's biggest pay-TV group reported a 33 per cent rise in operating profits to £129m for the nine months to 31 March. The number of direct-to-home subscribers, which excludes people who watch Sky via cable and terrestrial operators, rose by 171,000 in the quarter to 5.9 million. This puts Sky on track to hit its target of 7 million subscribers by 2003. The shares closed 28p lower at 714p.

Evening Standard
10 May 2002

BSkyB cuts losses despite £22m ITV Digital hit

...ITISH Sky Broadcasting has trimmed its losses despite taking a £22 million hit from the collapse of ITV Digital, which was shut down by the administrators last month, *writes James Mclean.*

Figures from the group today showed losses had been reduced, with revenues rising 21% to £2.03 billion for the nine months to 31 March. Sky added some 171,000 subscribers in the three months to end-March, against expectations of about 150,000, taking the total to 5.9 million. Average annual spending per subscriber rose 11%, to £341, the group said.

Losses for the three-month period were cut from £105.1 million to £26.4 million before tax, as turnover rose 15% to £733.5 million. But reflecting higher programming expenditure, the nine-month loss soared to £1.28 billion from £365 million.

Chief executive Tony Ball said the results showed that Sky Digital 69 "continues to make progress on all fronts".

The group confirmed ITV Digital owed it £22 million for programming at the time of its demise last month and that it was taking a full provision against the money owed. Earlier this year, BSkyB made provisions against its stake in Germany's KirchPayTV, which filed for insolvency this week. Sky today said it expects to recoup little of its investment from Kirch.

The Independent on Sunday
12 May 2002
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'A deal with Murdoch? I've never met him'

The IoS interview

Tessa Jowell, Culture Secretary

By Colin Brown

Tessa Jowell has denied a conspiracy between 10 Downing Street and Rupert Murdoch led to changes in the Communications Bill to allow the media mogul to buy Channel 5.

The decision to sweep away the rule preventing large newspaper groups from the takeover of Channel 5 startled the media industry and led to angry speculation that Tony Blair had done the deal with Mr Murdoch in return for taming the anti-euro views of his UK titles, *The Sun* and *The Times*.

Speaking to *The Independent on Sunday*, the Secretary of State for Culture, Media and Sport dismissed such allegations. "Anybody who tries to write a story about conspiracy is making it up. There is no conspiracy, there was no conspiracy, there has been no deal. That is the beginning and end of it."

Ms Jowell had come from a roasting on the internet in a web chatroom she had hosted about her draft Bill. One online critic said he would never vote Labour again for allowing Murdoch to buy Channel 5.

"Spaceboydreamer" said *The Times* had announced it would soften its stance on Europe. "Is it cynical to suppose these events are not unrelated?" A man who described himself as a Channel 5 worker said Mr Murdoch would copy Sky One on Channel 5 showcasing "tits, bums, and people (and animals) behaving badly". Another internet questioner asked when she had last met Mr Murdoch. She retorted: "I have never met nor spoken to Rupert Murdoch. I am not aware of any occasion on which he discussed the communications Bill with Number 10.

Someone calling himself "Islingtonian" said rudely: "True or false - ITV Digital has gone down the pan along with your predictions of a digital switch-over." The answer to that, I discovered, is that she is sticking to her predictions that the switch-over will take place in 2006-10.

Even her Tory shadow, Tim Yeo, sneaked online to have a go. Another online critic accused her of being the Nation's Nanny, telling people what to watch, listen to, eat, drink and smoke.

Relaxing later over a cup of tea in the safety of her private office, she told me: "It may be much less interesting but Patricia Hewitt [Trade Secretary] and I worked on this policy together. We studiously went through the consultation. I had a very large number of meetings and we drew our conclusions from that in a context where we were quite clear that we wanted to deregulate."

Privately, it is admitted that Number 10 was involved, and the Culture Secretary agrees that she had considered a compromise to allow foreign investors to buy Channel 5 only where other countries reciprocated.

That would have left the door barred to Mr Murdoch. An Australian by birth, he is a naturalised American citizen and the US market is not open to foreign take-overs.

If there is any nannying side to Ms Jowell, it is her passion to maintain high public service broadcasting principles in the BBC, and to stop Greg Dyke from dumbing down in pursuit of viewer figures. She defends the right of television soaps such as *EastEnders* and *Coronation Street* to discuss controversial issues, in spite of the criticism by the Broadcasting Standards Commission last week that they featured too much sex, rape and violence before the 9pm watershed.

Soaps have been an "incredibly important vehicle for raising taboo issues", said the Secretary of State for Culture, Media and Sport. "It would be a storyline on *EastEnders* about teenage pregnancy and how to avoid it, about sexually transmitted disease, about smoking - it would be far more powerful and persuasive than anything any minister might say."

As a former health minister who struggled with Britain's appalling record of unwanted teenage pregnancies, she is speaking from experience. "I think where soaps have addressed these issues, they have done society a great service."

Her role with the Bill is more that of a midwife than a nanny. It is an agonisingly slow process. The Bill will be included in the Queen's Speech in November and should be law by mid-2003. It will bring in Ofcom, the new standards watchdog. She was criticised for preserving the role of the BBC governors as the watchdog for the BBC, but a little noticed clause in the Bill could change that in the long term. It allows Ofcom to carry out a review of all broadcasting, including the BBC, within a year of its establishment. "They will start the review the moment they get their knees under the table," said a source.

Further reviews are required every three years. It is likely that the interlude will be reduced during the passage of the Bill. She is formidably well briefed on the detail but will face a tougher test on Tuesday when she faces a kicking from Gerald Kaufman and his select committee on culture, media and sports for allowing a further delay to the Football Association for the Wembley project. Then she will need her shin pads.

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Biography

1947: Born 17 September in London. Studied at Aberdeen and Edinburgh Universities and Goldsmith's College.
1969: Worked as a child care officer in Lambeth.
1972: Psychiatric social worker at London's Maudsley Hospital.
1974: Assistant director of mental health charity Mind
1978: Contested Ilford North by-election and in the 1979 general election.
1986: Became director of the Joseph Rowntree Foundation's Community Care Programme.
1992: MP for Dulwich and West Norwood.
1997: Minister of State, Department of Health.
1999: Secretary of State, Culture Media and Sport

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ALAN WATKINS

Ms Bossyboots frees the television genie

Ever since television became part of life, some time in the 1950s, the politicians have regarded it with a mixture of admiration and apprehension. Consequently their disposition has been to regulate and discipline it, to license and control. The press has, by comparison, got off lightly.

True, the law of libel is the most stringent in the western world. The Secretary for Trade and Industry possesses powers – now being modified – to intervene in mergers and takeovers which are exercised politically, as John Biffen allowed Rupert Murdoch to acquire *The Sunday Times*. They are a disgrace to a society which calls itself free. But the Press Complaints Commission is more a producers' co-operative than a disciplinary committee. In general the papers are allowed to go more or less their own way.

This was never so of television or even of sound broadcasting. It was the same before the advent of commercial television in 1954. The BBC was a public corporation established by Royal Charter. Though independent of the government, it operated under strict rules of engagement, some of them self-imposed.

Most of us thought that, if any government was unlikely to relinquish any powers which it held, it was this one. Most remote of all was the possibility that it would give up any degree of control over the "media", to which Mr Tony Blair and others ascribe supernatural gifts.

Well, we were all wrong. The Draft Communications Bill shows we were. The draft Bill, I should perhaps explain, is much in favour with the present administration. Historically, the form originated with the reports of the Law Commission, which often appended draft Bills, usually of a technical nature, incorporating its recommendations. Inevitably, a draft Bill takes longer to become an Act, for that is inherent in its nature: there is meant to be a lot of discussion, of submissions by interested parties and so forth. Ministers expect this Bill to become law by the end of 2003, but they will be lucky if it is.

What makes the whole story even odder is that the ministers who are responsible in the Commons, Ms Tessa Jowell, the Secretary for Culture, Media and Sport, and Ms Patricia Hewitt, who is at Trade and Industry, are both justifiably regarded as the leading figures in the Bossyboots tendency which is already strong in the present government. They specialise in addressing their audiences as if they were infants classes, with Ms Hewitt's charges perhaps more backward than Ms Jowell's.

Ms Jowell's understrapper in the Lords, Lady Blackstone – another Tessa – is also another Bossyboots, though she may be teaching slightly more advanced classes. Only Dr Kim Howells, Ms Jowell's Under-Secretary, gives the impression of addressing an adult audience, even if his occasional bursts of Celtic fervour make Mr Rhodri Morgan sound prosaic. And yet, here was Ms Bossyboots herself telling us:

"These changes are deregulatory. We will depend more on competition and on competition law... Ownership regulations will disappear or be reduced. Self-regulation will be extended wherever possible. Complex schemes for licensing networks and access to them will be scrapped and replaced with a streamlined system."

Truly, the age of miracles is not passed after all. And so, Carlton and Granada will be allowed to merge. I should, however, be reluctant to see Mr Michael Green and Mr Charles Allen of the respective companies make a single extra penny until they had paid First Division football the money they owe the clubs, instead of sheltering behind the technicalities of company law which allow the true owners to escape the consequences of the ITV-digital fiasco.

Ms Jowell and Ms Hewitt, who are jointly responsible for the measure, are keeping the rule that any newspaper group with more than 20 per cent of the market will not be able to own a "significant" stake in ITV. Mr Murdoch will, however, be able to buy Channel 5 if he wants it and its predominantly German owners are prepared to sell it to him. This change impelled *The Guardian* to comment:

"The consumer may welcome this sudden infusion of quality, since Channel 5 has lowered the standard of British broadcasting. But few others will."

Unless the paper was indulging in heavy irony at Mr Murdoch's expense, so much for the consumer in Guardian-land! I have met Mr Murdoch only once. It was in what Lord Beaverbrook used to call, dismissively but inaccurately, El Vino's public house, just after he had taken over *The News of the World*. He was surrounded by several figures from the old order there, who turned out to be not long for this world, that of newspapers, I mean. We exchanged civil greetings and went our separate ways, a happy condition which has persisted ever since. He has made no approaches to me; nor have I to him. He forms no part of my plans.

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The false attribution of base motives is one of the evils of the age. When I write that my £320-odd a year for Sky television is more than three times better value than my £112 for the BBC, it is what I think. Sky provides not only sport which the Corporation does not broadcast – has long since ceased even trying to broadcast – but the BBC's own invaluable parliamentary channel as well.

It also supplies a news service which, at weekends and on bank holidays, has the great merit of broadcasting a bulletin on the hour, while the BBC and ITV are all over the place. And *Sky News* is of high quality. Stories about missing teenagers or Siamese twins are no more common there than they are on the other channels. People who attack Mr Murdoch's news programmes on account of their supposed bias or triviality have rarely if ever, in my experience, actually watched them.

Mr Murdoch's newspapers are different, as one would expect them to be. Their present characteristics are a broad though by no means uncritical support for the Government; a hostility to our entry to the euro; and a fervent enthusiasm for Mr George Bush and his policies of death and destruction. The Mr Worldly Wisemen say there must have been some deal: most likely that, in exchange for Mr Murdoch's new freedoms, *The Sun* would at least go easy on the euro.

A way out of the difficulty would be for Mr Bush or one of his minions to proclaim – much as J F Kennedy urged Harold Macmillan to join the Common Market – that our participation in the euro was absolutely essential to the security of the West. Then *The Sun* and *The Times* also could both turn about with a clearer conscience, if that sort of thing worries them.

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Murdoch, pie in the Sky and a bad case of non-communication

CORE VALUES

BY ANDREW NEIL

BRITAIN'S myopic media is so obsessed with their great bogeyman, Rupert Murdoch, that not only were its predictions about what would be in last week's communications bill hopelessly wrong, it has yet to appreciate the real significance of what the bill means for British broadcasting.

Having assured us that mi[redacted] a mind to stuff Murdoch by [redacted] cross-ownership restrictions that prevented major newspaper groups from owning a terrestrial television licence, since Tuesday's publication of the bill – which makes it perfectly possible for any newspaper group to own Channel 5 – they have been writing (with much tut-tutting) as if it is only a matter of months before Murdoch gobbles it up.

But this prediction in the aftermath of publication could be as mistaken as the ones they were making prior to it, for it involves two heroic assumptions that nobody has much bothered to question: first, that the existing owners of Channel 5, German media group Bertelsmann, are of a mind to sell it; second, that Murdoch wants to buy it. Neither is necessarily true.

All the signs have been that Bertelsmann, which owns 65% of Channel 5 (via its pan-European broadcaster RTL), would like to increase its stake to 100%. True, it has also had an eye on acquiring ITV, a far bigger prize with four times the audience of Channel 5; there have even been exploratory takeover talks with Carlton. If it ever did end up owning the ITV network it might have to give up Channel 5. But it is far from a foregone conclusion that ITV will end up in German hands now that the government has decided to sweep away all foreign ownership restrictions on British media.

Bertelsmann could find itself competing for ITV with American media giants such as AOL Time Warner, Disney or Viacom – as well as with France's Vivendi – all with pockets at least as deep as the Germans and perhaps a better understanding of what British viewers want. Given the uncertainty of its ITV ambitions, it is not about to give up Channel 5 to accommodate Murdoch. Despite the fevered speculation in London's media village, there is no evidence that Channel 5 will be up for grabs for the foreseeable future.

Nor is Murdoch quite as keen on acquiring Channel 5 as most Murdoch-watchers assume. He is certainly not as convinced as his executives at BSkyB. Its boss, Tony Ball, likes the idea of Channel 5 being a terrestrial shop window to drive the successful satellite service into even more than the 6m homes that already take it. It would be a natural terrestrial showcase for Sky News and Sky One's modest output of original programming. Deals could be done for Hollywood films, American TV shows and British sport which covered both terrestrial and satellite rights, giving Sky/Channel 5 a stronger negotiating hand than other British broadcasters. And all the time Channel 5 viewers could be urged to upgrade to the multi-channel wonders of BSkyB.

Murdoch understands all this. He also knows that Ball and his Sky team would make Channel 5, a lacklustre, minor affair in the grand scheme of broadcasting, a far more popular and enervating channel than it is. But unlike most of Murdoch's parochial British critics, he operates on a global scale and sees all opportunities in a worldwide context. Look through that prism and you will understand why Channel 5 is small beer and hardly a Murdoch priority.

The future of pay-TV in Germany remains to be determined in the wake of Kirch's bankruptcy. Murdoch is stalking Premiere – the German Sky – from a distance. There is still a decent chance it will fall his way, demanding capital that he will not want to tie up by sinking it into Channel 5 – but promising future returns beyond anything the Britain's weakest network could ever deliver.

Then there is the ongoing saga of DirectTV in America. This American version of Sky was snatched from under Murdoch's nose by another broadcasting entrepreneur, Charlie Ergen. But because Mr Ergen alrea[redacted] American satelli[redacted] not going down well with anti-trust, pro-competition politicians on Capitol Hall. It could be stymied. If it is, Murdoch will enter the fray once again, this time determined not to be upstaged twice.

None of this should be taken to suggest that Murdoch has no interest in Channel 5 – just that he has bigger fish to fry and, unlike his British critics, does not stay up at night fretting over whether he should go for it. There is another factor to be taken into account: the best days of terrestrial networks could be over.

Murdoch is an assiduous ratings watcher. So it will not have escaped his attention that on some nights in America, especially among the key 18-34 age demographic, a few US cable channels now attract bigger audiences that the traditional American networks, a trend that can only increase. Britain is fast heading to American levels of multi-channel penetration. If that leads to future big declines in the British networks' audience share then it hardly makes sense to pay an arm and leg for Channel 5 – and acquiring Channel 5 could be expensive.

Now that American as well as European global media giants can go for it, suitors could bid up a Channel 5 sale to over £1bn; at that price Murdoch is likely to conclude that he would get a much better return on capital by buying a profitable local station in the likes of Milwaukee (the recent further deregulation of American TV means he can now buy almost as many as he likes) and walk away from Channel 5.

British pundits were so obsessed with whether Murdoch had been stuffed or rewarded by the government that they missed the real, dramatic story in the communications bill: at its core was a massive ministerial vote of no confidence in Carlton and Granada, the British companies that dominate the ITV network. After the

poor original

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ITV Digital debacle and the continued decline of the ITV network, the government has effectively announced it has lost confidence in the Carlton/Granada management and is happy to facilitate an American, Australian, Canadian or European takeover.

The government has concluded that just about anybody other than the present lot would be better running ITV. It has thrown open the doors to foreign ownership because ministers have finally realised that, though France has Vivendi, Germany Bertelsmann, Japan Sony and America has global media giants too numerous to mention, Britain, despite the inestimable asset of the English language, cannot boast a single global media player. That is the real measure of the failure of those who run British commercial broadcasting.

Ministers have been privately encouraged to reach these conclusions by Murdoch, BSkyB and their assiduous and influential lobbyists, even though it does not benefit them directly. The part of culture secretary Tessa Jowell's statement which swept away foreign ownership restrictions almost sounded as if it had been drafted by the Murdoch men (perhaps it was!). It is certainly what they have been telling the government, behind closed doors, from the prime minister down. The government has decided it agrees. That was the real media story last week. Pity the pundits were too busy indulging their Murdoch paranoia to notice.

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Sunday Roast

Bill's surprise leaves red faces at the Pink 'Un

THE government's surprise sweeping away of foreign ownership restrictions in its draft Communications Bill caught out Fleet Street's dozy media correspondents, but it was the normally reliable Financial Times which ended up with the most egg on its face. "Media laws set to block Murdoch", was the FT's page-one lead on 29 April, in which its political correspondent (a former media correspondent) confidently reported that "Rupert Murdoch is to be barred from expanding into free-to-air television stations ... [Murdoch's] News Corp will still be prevented from buying more than 20% of Channel 5".

The FT was so sure of its scoop that it recycled it over several days. So there must have been red faces at the Pink 'Un when publication of the bill on Tuesday revealed that all restrictions on Murdoch owning Channel 5 were to go.

Predictably, the Guardian made the same mistake. Following a week later in the FT's wake, under the headline "Media Bill will block Murdoch ambition", its media correspondent (or should it be media gossip?), Matt Wells, reported with relish that Murdoch was about to be "thwarted". Grandly, Wells wrote: "The Guardian has learned that ministers have resisted intense lobbying and decided to retain the [cross-ownership] restrictions." Oops, again.

No one is surprised that the Murdoch-obsessed Guardian got it wrong: its coverage is usually more inspired by wishful thinking than by facts. But we do expect better of the Bible of the City. Perhaps it should avoid its own Guardian-style wishful-think in future.

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Rule book for Rupert

Jamie Doward on the radical plan in the Communications Bill for keeping one step ahead of predators

IT IS 2007 and Lachlan Murdoch's BSkyB owns Channel 5, Carlton Communications, Scottish Media Group (owner of Virgin Radio) and TalkSport, the radio station run by his father's former cohort, Kelvin MacKenzie.

Implausible? Absolutely. Impossible? No. Last week's draft Communications Bill was even more of a seismic shift in the media landscape than many have yet realised. While the Bill has attracted attention for proposing that the rules banning Murdoch from owning Channel 5 be relaxed and foreign firms be allowed to buy UK television companies, it is the small print that is really interesting.

Tucked away in the Bill was the proposal that the new media supra regulator, Ofcom, should 'review all media ownership rules no less frequently than every three years'. This radical plan recognises that the media sector is changing so quickly that soon all ownership rules could become obsolete. A future government could jettison the remaining rules on cross-media ownership altogether – without the need to introduce primary legislation – and simply leave the sector to the competition authorities, like any other.

'This is an extremely important development. The Government is saying: "If you try to fix in stone media ownership you end up looking stupid". So it's putting in place mechanisms so the rules can be relaxed,' said Ben Tolley, vice president of Long Acre, the media-focused corporate finance adviser.

In a few years' time Ofcom could be in a position to recommend that, as new technologies such as broadband or 3G phone services have taken off, creating unprecedented competition and viewer choice, remaining media ownership rules should be dropped. The Government could implement the plan using secondary legislation – without having to put a Bill before Parliament.

'It's a great boon for the media. But it is controversial. People get very excited about the prospect of something as contentious as this being done through secondary legislation,' Tolley said.

Such a move would do much to depoliticise media regulation – allowing the Government to distance itself from charges that it had engaged in Faustian pacts with Murdoch. Analysts draw comparisons with the way the Government granted control of interest rates to the Bank of England's Monetary Policy Committee.

'A lot of the competition issues in the media sector have seemed to be based around a particular government's concerns about newspaper proprietors and the front page of the *Sun*. Now we have an opportunity for rational regulation,' said Chris Bright, a competition expert with law firm Shearman & Sterling.

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For now, though, Murdoch has to be content pondering the potential acquisition of Channel 5. BSkyB chief executive Tony Ball has in the past expressed an interest in the channel, which is 65 per cent owned by broadcaster RTL, a subsidiary of German media giant Bertelsmann. And Murdoch's interests in US operators Fox and Chris-Graft show the mogul is interested in acquiring free-to-air television stations.

JP Morgan's media team suggests the acquisition of Channel 5 would be positive for BSkyB as it would 'confer synergies, cross-promotion of products and schedules and joint selling of advertising. It would also enable to BSkyB to market to all UK households.' Significantly, the team believes BSkyB would not be content with using Channel 5 simply to promote its satellite services. 'It would be an aggressive move to double or triple Channel 5's 6 per cent market share by competing head on with ITV.'

Analysts value Channel 5 at around £600 million. But with a bid premium, Murdoch might end up paying more than £1 billion. Whether this would be acceptable remains to be seen and Ball is at pains not to seem too enthusiastic. 'He hasn't poured a bucket of water over the idea, more a small glass,' said one person familiar with his thinking.

Whether Murdoch could bag Channel 5 is another matter. There are doubts over whether RTL (and United Business Media, which owns 35 per cent of Channel 5) wants to sell. Murdoch may instead strike a content-supply deal with the consortium that has emerged as a frontrunner to take over defunct ITV Digital's multiplex as a means of broadening BSkyB's reach. Its members are unknown.

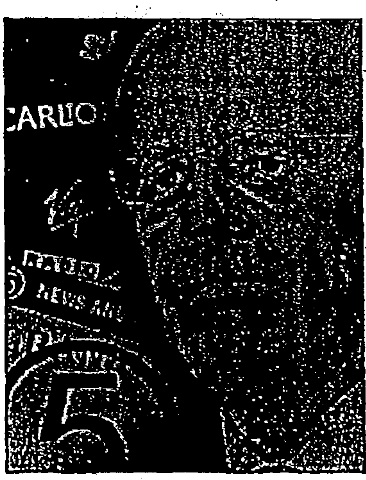
In addition, US predators – notably AOL Time Warner and Disney – could also be interested in Channel 5. But their problem is that investors are unlikely to accept paper deals, so they need to find cash. This will not be easy, as few US media companies will have much cash in the bank for many quarters to come.

Some suggest the 'Yanks are coming' leitmotif may have been overstated. 'Why would a US media company want to buy into the UK? They are looking outside the US for growth but there are other markets with better potential,' said Simon Mays-Smith, analyst with JP Morgan. Instead interest is likely to come from a less obvious quarter. 'I think you'll see interest from private equity firms sitting on billions of uninvested cash. Licensed media operators are extremely attractive assets. You're likely to see as many private equity buy-outs as strategic deals,' Tolley said.

The one strategic deal that is now taken as a given is the merger between Carlton and Granada. The shares have soared in recent days as the market prices in a union of the two once ownership rules are relaxed.

But the merger is unlikely to be the panacea many predict. 'The bigger question is what happens next,' said Mays-Smith. 'OK, you have a single ITV, but ITV is having a tough time. In the longer term it faces some serious strategic issues.' The two companies need to find new areas of growth. There has been talk – denied by Granada – that the company is considering an equity swap with Trinity Mirror which would see the two form various cross-marketing joint ventures.

A more likely prospect is a move into radio now that laws governing radio ownership are set to be relaxed. Most bet on Granada taking out Chrysalis, which owns a book publishing arm and a television production company. A giant game of musical chairs is about to start. For the first time in months, investment bankers are smiling.



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BSkyB faces satellite tax

New levy would hit Murdoch profits ● Ofcom powers might scupper Channel 5 deal

by Jamie Doward
Deputy Business Editor

RUPERT Murdoch is on a collision course with Labour over Government plans to hit satellite operators with a tax on the use of broadcast spectrum.

The plan – concealed in the small print of last week's draft Communications Bill – is a political timebomb. BSkyB, which is already loss-making, yesterday reacted angrily to the prospect. 'Any proposal would unfairly discriminate against over 30 satellite operators,' said one BSkyB source.

Legal experts say the move would put the Government in conflict with Brussels, which would be against EU members adopting unilateral positions on spectrum allocation.

In a move which would hamper any Sky plan to buy Channel 5, the Government also intends to give regulator Ofcom powers to radically alter broadcasters' licences if they are taken over.

The draft bill proposes to give Ofcom the right to change the terms of a broadcaster's licence should it fall to a predator. The regulator would be able to rule that a new owner of a UK media firm must accept numerous changes to licence obligations – including increasing the station's proportion of UK content, or its use of independent production companies.

Such a move is designed to deflect fears that foreign media companies – notably US firms such as Murdoch's News Corp or Disney – could take over a UK television company or radio station and dramatically alter its content.

These sweeping powers suggest deregulation will not be the free-for-all some have predicted. 'Of course, Ofcom's new powers will cause tension and they will have to be used judiciously. But the idea that any company will be able to ride roughshod over a UK broadcaster is wide of the mark,' said an informed source.

A greatly empowered Ofcom would oversee a Content Board which would be given a raft of powers to promote and protect content. The new regulator would be charged with toughening up impartiality requirements for radio stations, operating what is being described as a 'dipstick test' in which its officials would roam the country randomly tuning into stations and taking action against those it thought were failing.

It is likely that the head of the Independent Television Commission, Patricia Hodgson, will head the Content Board, while Lord Eatwell, chairman of the Commercial Radio Companies Association, is favourite to become Ofcom chairman. Richard Hooper, head of the Radio Authority, has emerged as a prime candidate to become Ofcom chief executive.

Whoever takes charge faces a bumpy ride. The bill would give Ofcom the power to determine how spectrum is allocated. The Treasury is now considering an independent review of broadcast spectrum by Professor Martin Cave. He recommends charging operators such as Astra, the company which builds and maintains BSkyB's satellites. The bill commits the Government to 'consider carefully what the review says on this issue and the comments it receives on the review'. A decision is expected in the autumn.

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Murdoch faces satellite dish tax Move to end Sky's 'unfair TV advantage'

By Simon Fluendy

THE Government is threatening to slap a huge 'satellite dish tax' on Rupert Murdoch's BSkyB.

The radical plan would charge unlicensed TV companies such as Sky for access to the airwaves used to beam programmes into millions of homes.

Its outline is buried in the draft Communications Bill published last week.

The size of the potential levy on Sky, 40 per cent owned by Murdoch's News Corporation, is unclear. But analysts speculate that Tony Blair could use the threat of a 'dish tax' to squeeze concessions from Murdoch, owner of The Sun, News of the World, The Times and The Sunday Times. Any levy could be made on users of the Sky service, or imposed on the company itself.

The draft Bill was initially seen as favourable to Murdoch because it would allow him to expand his TV empire by bidding for Channel 5, though not ITV companies Carlton or Granada. But the Bill clearly states that Sky, rather than terrestrial broadcasters, should bear the brunt of any new charges for so-called spectrum access.

At the moment, only users of terrestrial radio frequencies have to pay for access to the airwaves. Satellite broadcasters – of which Murdoch's company is the only one serving the UK market – pays nothing.

The Bill says: 'There is currently no mechanism to charge for the use of the spectrum (by satellite operators)... Moreover, it places terrestrial operators, who pay licence fees, at a competitive disadvantage.'

Access fees 'would be subject to the existing spectrum pricing regime,' the report continues. ITV companies already pay the Government £360 million a year for the right to use the airwaves.

To raise a similar amount from Sky would cost Murdoch – or his customers – the equivalent of £60 for every satellite TV household.

Media experts said the Government's end-

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game was far from clear. 'The bill is clearly talking about a tax by any other name, but the Government is not saying how much or who should set the level,' one analyst said.

The idea of charging satellite firms such as Sky was first mooted in a highly technical report for the Government by Professor Martin Cave of Warwick Business School, published in March.

His report was mainly concerned with allowing mobile operators to trade their spectrum so that it could be used more efficiently.

But Cave also considered other potential uses for the frequencies by which Sky sends TV signals to 5.9 million subscribers in the UK. The company takes an average of £341 a year from each of them.

Cave came up with no conclusions about what regime should be imposed on Sky. He said: 'My remit was to cover interference with other users, which is not an issue for Sky, and opportunity cost – that is, could the spectrum it uses be put to another, possibly better, use?'

But Cave did recommend that the director-general of Ofcom, the industry watchdog yet to be created, should set the level of any new spectrum fee.

When Culture Secretary Tessa Jowell announced the Communications Bill last week, she said that the Government broadly supported Cave's findings.

But a Department of Trade and Industry source said the formal response to his report was still two months or more away.

The DTI declined to say how many times Ministers had met BSkyB to discuss the implications of the bill.

Sky did respond to Cave's report, but its reply has been kept secret at the broadcaster's request. Astonishingly, Sky replied before Cave had formally submitted his report, according to a source close to the Government.

Sky publicly dismissed the idea of a dish tax and has already started work on its attack. A spokesman said: 'It is not as if the spectrum we are using is a scarce resource and we don't cause interference.

'There is no reason to charge us. And if the Government wanted to charge the subscribers, it would require an entire new bureaucracy.'

The Sunday Times (Business)
12 May 2002
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THE YANKS ARE COMING
... but not yet

The government wants to open up media ownership. But foreign buyers will take some time to arrive, writes Paul Durman

The day Britain's media playing field tilted towards America, Cindy Rose was waiting impatiently in her office. Rose, who heads Walt Disney International in Britain and Ireland, was anxious to hear how the government proposed to liberalise media-ownership rules — and Tessa Jowell, the responsible secretary of state, was due to address the House of Commons.

"I was at my desk, drumming my fingers, waiting for the announcement," Rose recalls.

The draft communications bill was worth waiting for. As expected, the bill, published last Tuesday, paves the way for the inevitable merger of the ITV companies, Carlton and Granada, and for similar consolidation in the radio industry.

Even more interesting, the proposed legislation clears away many of the barriers that block cross-media ownership — making it possible for newspaper groups to move into television by, for example, acquiring Channel 5. It will also throw open the door to foreign media groups, allowing them to buy the ITV companies and take over leading radio groups such as Capital Radio.

This is great news for Disney, and for its rivals, AOL Time Warner and Viacom, which are keen to reduce reliance on their domestic market.

Rose is brimming with enthusiasm. "This is a stunning development for Britain," she says. "It opens up all sorts of opportunities. I don't think anyone expected the government to go as far as it did.

"The government took some visionary steps. We warmly welcome it and we congratulate them." She adds: "Like smart business people everywhere, we are assessing the opportunities. This is a case of stay tuned."

On the stock market, media share prices climbed higher as investors anticipated a wave of deal-making. Idling investment bankers, with merger-and-acquisition activity becalmed, could take heart from the prospect of earning fees once again. Quite simply, says Lorna Tilbian, media analyst at Numis Securities, "everyone's a winner".

Not everybody was so enthusiastic. The Guardian, the trade journal for London media folk, was dismayed at the alleged capitulation to Rupert Murdoch, chairman of News Corporation, the ultimate owner of The Sunday Times. "Murdoch must have done a deal," claimed one article. "New Labour rolls over for Rupert," said a scowling editorial.

To The Guardian, the principal consequence of the proposals will be allowing News Corporation to acquire Channel 5. Yet Channel 5 is 65% owned by RTL, the television-production company, in turn controlled by Bertelsmann, the German media group. And Bertelsmann is expected to be a buyer, rather than a seller, in the deal-making to come, having said it wants to increase its share of Britain's free-to-air television market.

This is just one indication that much of the early speculation is just that. Some experts believe that consolidation will occur more gradually than pundits suggested last week.

David Elstein, the former head of Channel 5, is among those sceptical that foreign firms are desperate to enter the British market. "Lifting foreign-ownership restrictions gives people more buyers, but whether American companies have the scope and appetite for British media assets remains to be seen," says Elstein. After all, ITV is suffering its worst decline in audience share and advertising revenues.

Clear Channel, the American radio and outdoor-advertising group, is an obvious buyer. But Roger Parry, the London-based chief executive of Clear Channel International, is cautious. After dismal advertising revenues last year, many of Britain's quoted media companies look expensive.

"Frankly, the prices are pretty fancy," he says. "If the bill became law tomorrow, I don't think we'd be buying a radio group because the prices are too high."

Parry also believes many leading American companies are too preoccupied with their own problems to be ready for overseas adventures.

He says: "Today most American media companies are focused on America. They're still getting over the dotcom collapse. They're still getting over September 11. They're still getting over the huge asset write-downs that most of them are having to make. Nothing is going to happen next week."

THE SHOT in the arm provided by the communications bill could scarcely have been better timed. Many media companies are struggling to recover from the worst advertising recession in decades. And the ITV Digital debacle has underlined the dangers of trying to compromise between commercial and government priorities.

The government appears to have learnt from the 1996 Broadcasting Act, which was widely criticised as illogical and restrictive. It has also recognised the lukewarm response to its timid white paper of December 2000 and has thrown open Britain's media industry to the realities of the free market.

Ben Tolley of LongAcre Partners, the corporate-finance boutique for the media, says: "The draft communications bill represents the most liberal, deregulatory set of rules for media ownership ever proposed by a UK government. The dramatic scope of the reforms was widely unexpected."

In a sector-by-sector analysis of the impact, he says: "The UK terrestial broadcasters — principally Granada, Carlton, SMG and Channel 5 — will now be potential acquisition targets for overseas (particularly US) predators. The ability for the likes of AOL Time Warner, Viacom, Disney and News Corporation to play in the UK market can be expected at the very least to hasten decision-making by European groups such as Bertelsmann and Vivendi Universal."

He adds: "UK radio operators are now potential targets for a very wide range of larger media operators."

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If passed into law, the bill would even allow advertising agencies such as WPP and Omnicom to own broadcasters.

Some of Britain's best-known media brands are set to disappear. It is only a matter of time before Granada buys Carlton, despite the bickering between the two firms over the ITV Digital disaster. However, many analysts see this merger as a precursor to a foreign takeover, possibly by Bertelsmann.

The commercial television company will also appeal to Viacom, which owns Paramount Pictures and MTV as well as CBS, the largest American television network. Some pundits believe there is a 50% chance that a combined Granada and Carlton group will end up with an American owner.

Capital Radio, Britain's biggest commercial radio company, is also expected to lose its independence. It already has a joint venture with Disney, a children's station called Capital Disney. With its dominant position in the key London market, Capital could present an attractive strategic acquisition.

Trinity Mirror, which owns the Daily Mirror and numerous local newspapers, is seen as a target for Gannett, the American newspaper group.

SMG, the Scottish media firm that owns the Scottish and Grampian television stations, Virgin Radio and Herald newspaper group, will also attract American suitors. Andrew Flanagan, SMG's chief executive, says the company could be a "bridgehead into Britain" for one of the American giants.

He adds: "We are the perfect media company to look at. We have all the bits in place."

GWR, the radio group that owns Classic FM, is expected to fall to Daily Mail & General Trust (DMGT), which already owns almost 30%. Parry says: "It's pretty obvious that the good viscount [Viscount Rothermere, DMGT chairman] will buy it at some point. It's a pretty logical acquisition."

The bill will allow a single company to own all three national commercial radio licences, abolishing the ban on one firm owning more than 15% of national audience share.

Clear Channel's Parry is among those who believe radio will consolidate into three groups: Capital, GWR, and everything that's left over. "One of those three groups will have an American parent," he says.

The evolving market should help Lord Hollick's United Business Media fetch a good price for its 35% stake in Channel 5, its last television interest.

Channel 5 will be an immediate takeover target because it is the fastest-growing commercial television company. Valued between £600m and £1 billion, it is also far cheaper than Carlton or Granada, which would cost about £2 billion and £3.5 billion respectively.

Although News Corporation is seen as the likely buyer, Chris Bright, a partner at Shearman & Sterling, the law firm, says that European Union

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regulators and the Competition Commission would look hard at such a move. Besides, Bertelsmann has shown no signs of wanting to sell.

The only British networks that will remain protected, to ensure "plurality" of voice, are the BBC and Channel 4. But Mark Thompson, Channel 4's chief executive, is concerned the broadcaster may not remain in public ownership for long.

IT IS NOT QUITE a free for all. Newspaper groups with a market share of more than 20% are still banned from acquiring an ITV company. And a similar rule prevents regional newspaper companies owning the local television franchise.

The former restriction is aimed largely at News Corporation, most media watchers believe. It prevents the company acquiring a stake of more than 20% in an ITV company.

Despite these remaining controls, the British media market will be among the most open in the world. Although the American Federal Communications Commission recently sent a delegation to Britain, there are no signs that America — or any other country — plans to offer reciprocal access to its media.

Tessa Jowell, the secretary of state for culture, media and sport, acknowledges the risks involved in removing foreign-ownership restrictions. "I don't expect [American companies] to necessarily share the same content priorities as we do, but if Disney bought ITV they would be liable for precisely the same public-service obligations that Carlton and Granada currently are," she says.

This places a heavy burden on the Office of Communications, the media and telecoms super-regulator to be created from five existing watchdogs.

Ensuring equal access to premium content promises to be a challenge for Ofcom. It will be responsible for monitoring the concentration of media power, and its decisions and rulings are likely to be highly contentious.

Parry believes the traditional concerns about concentration of media ownership are outdated and misconceived. "It's a nonsense to suggest that concentration of ownership will lead to a reduction of diversity," he says. "Strong media owners do produce a diversity of output."

AOL Time Warner, Disney, Viacom, Bertelsmann, Vivendi, Clear Channel — and News Corporation — own a variety of media businesses, that appeal to different audiences.

Parry continues: "Big media groups don't have cultural agendas, they have financial agendas." He argues that it is only common ownership that allows many niche publications and radio and television stations to survive. "You have to have concentration of ownership or the economics of the small ones collapses completely."

THIS NEED for synergy — shared infrastructure such as advertising sales teams, and cross-promotion opportunities — will determine the pace of the media shake-up.

Neil Blackley, media analyst at Merrill Lynch, says the first deals will likely be those that are "intra-media", such as a merger of Granada and Carlton or GWR and Chrysalis. Here, the benefits of merger are most obvious.

Cross-media deals, between TV and radio, or newspapers and radio, will come next. Only then will cross-border acquisitions make sense. "The least synergistic [deals] are cross-border mergers," says Blackley. But some people, particularly Americans, may want to buy a bridgehead in the UK, he says.

Viacom and AOL Time Warner, which bought AOL Bertelsmann and the IPC magazine business, have recognised the need to bulk up in Europe. Disney has Fox Kids Europe. Blackley says: "They've been sniffing around Germany and now they're going to be sniffing around the UK."

But with their domestic problems, it may be a while before the Americans move from sniffing around to wolfing down a British meal. British media owners may need to be patient.

Additional reporting: Dawn Hayes

Bryan Appleyard goes inside the BBC, meeting its director-general and chairman. Magazine, page 54

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HOW THE BIG PLAYERS ARE AFFECTED

BSkyB
If it can persuade Bertelsmann to sell Channel 5, BSkyB could use the terrestrial network as a second window, thus improving its position in bidding for programme rights. But it will for the first time face tough competition from the world's big TV companies

Capital Radio
As market leader in Britain, it is unlikely to be independent a year from now. In the meantime, it is likely to buy up its smaller peers

Carlton
Carlton's value rises with the abolition of foreign ownership restrictions. The pool of potential buyers will increase, but bidders will hold back until a £500m lawsuit is resolved

Chrysalis
As the fourth-large [illegible] becomes one of th [illegible] radio. Chairman Chris Wright own [illegible] in control of its own destiny

Daily Mail and General Trust
DMGT is safe from predators, given that the Harmsworth family owns 70%. It is expected to buy the 70% of GWR it doesn't already own

Emap
Emap has media [illegible] publishing, which [illegible] winkle out. Likely to be a buyer in [illegible] target for a big newspaper group

Granada
Granada is still pursuing a deal with Carlton, and the two are likely to unite following the abolition of the 15% audience-share limit and the restriction on ownership of London TV licences

GWR
The biggest single player in radio, with the hugely successful Classic FM. New cross-promotional opportunities mean that DMGT, which has a 29.9% stake, is likely to be its long-term partner

Johnston Press
Johnston will remain a big regional-newspaper publisher, but any future deals it does will now not automatically be referred to the trade secretary

SMG and Scottish Radio Holdings
Their merger plans can now go ahead. Carlton and Granada could seek to acquire SMG's Scottish franchises in a move to unify ITV

Trinity Mirror
Now in a stronger position to buy more regional titles, but may itself become a target for bigger international groups. It could also enter the radio market

United Business Media
Now expected to sell its 35% stake in Channel 5 for a fat profit, bringing to a close its involvement in broadcast media

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Britain opens its living rooms to the sharpshooters from America

by Sheryl Bagwell

A CRUEL joke that does the rounds in Westminster says that Rupert Murdoch has better access to the prime minister than the culture secretary, Tessa Jowell, who is responsible for the media.

Some might say it is a bit too near the truth to be much of a joke. Murdoch regularly meets both Tony Blair and Gordon Brown whenever he is in London and both are acutely aware of his importance. However, most newspapers were wrong to write down the long-awaited Communications Bill, revealed by Jowell last week, as a Murdoch-centred piece of work.

The Australian-born media mogul will have been quietly satisfied with its intention of removing the restrictions on foreign ownership of Britain's media and allowing newspaper groups to own Chanel 5 but his newspaper interests will still bar Murdoch from owning more than 20% of an ITV licence. There were bigger winners than Murdoch: one was Jowell's predecessor as culture secretary, Chris Smith, now a lobbyist and consultant for US entertainment giant Disney.

Disney had lobbied the government hard that the BBC should be brought under full control of the new super-regulator Ofcom, as it views the corporation's recent forays into children's TV as unfair competition. Smith failed in that aim, but the decision to change the rules that prevent non-European Union (EU) operators from gaining a significant foothold in the world's second largest English-language media market is a far more significant victory.

Foreigners from outside the EU can now bid for a raft of TV and radio assets, chief among them Carlton and Granada, the mainstays of ITV, who have been seriously weakened by falling advertising revenue and the humiliating collapse of ITV Digital.

A Disney spokesman said last week that the group, which holds 25% of GMTV in Britain, with further stakes in German channels, was "evaluating its options". A window of opportunity has opened for big American media players with deep pockets, such as Viacom, owner of the CBS network in the US, and AOL Time Warner, the recent purchasers of IPC magazines.

Murdoch and other big newspaper owners remain barred from owning more than 20% of an ITV licence but can now bid for the fast-growing Channel 5, currently controlled by the German Bertelsmann group. Newspaper groups will also be free to buy national and local radio stations.

Murdoch is thought to be comfortable with all this, particularly if he is not seen as such a bogeyman for the British media and political classes.

"Anything to do with media deregulation for him, whether he is in there or not, is a positive," said Kingsley Wilson, media analyst with Investec Henderson Crosthwaite.

Jowell's explanation of her decision – "It makes no sense that a French, German or Italian company can buy any TV or radio licence in the UK, but that American, Australian or Canadian companies, for example, cannot do so" – is also the view of global moguls such as Murdoch and Conrad Black.

They see laws which protect national interests from foreign players as outdated in the internet and multi-channel age. But it is remarkable that a Labour government has taken the politically-sensitive step of scrapping them in favour of one of the most liberal regulatory frameworks in the world.

Now the pressure will be on governments such as the US, Australia and Canada to reciprocate by scrapping their own ownership rules. That would trigger an unprecedented global shake-up. Jowell has already said she will press the Federal Communications Commission, the US regulator, to follow Britain's lead.

"This is a huge step," said one media adviser. "Britain has become the first country in the English-speaking world to liberalise its foreign ownership laws, just as it was the first to deregulate the telecoms and financial services sectors during the Thatcher era. This is the boldest thing that Blair has ever done."

BUT now that the door is open, will the Americans come in? Investment bankers may be salivating at the prospect of a media feeding frenzy akin to the dot.com mania – the share prices of Carlton, Granada and Capital Radio all jumped on release of the draft bill – but many are not convinced that the Americans will immediately make a grab for ITV or Channel 5.

"The track record for international companies buying national terrestrial broadcasters is not good," says Jon Watts, a senior consultant with Spectrum Media.

"The Disney-ABC merger in the States is a classic case: it is difficult to point to ways in which ABC has benefited through being owned by Disney. When people talk of the prospect of Bertelsmann buying ITV, there may be synergies with other terrestrial broadcasters in Europe that its subsidiary, RTL, operates, but they are not seismic."

Merrill Lynch's influential media analyst Neil Blackley, says: "There are no synergies in a cross-border acquisition of ITV or Channel 5, so they would be doing it for strategic reasons, as a stepping-stone to aggregate other media assets in the UK. The pecking order of synergies starts with intra-media consolidation, notably in radio, followed by cross-media. Finally, the least synergistic would be cross-border consolidation."

Nevertheless, the US giants are likely to be tempted to take the plunge into a market now valued at around £12bn. Disney, Viacom and AOL Time Warner are all interested in expanding into Europe and believe Britain would be an ideal launching pad.

US investment bankers expect the new rules to spark some heavy court- →

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ing between British and US companies but they too say it could be sometime before any deals are done.

First, many US operators will want to know the outcome of a review of US media-ownership rules by the FCC affecting the cable and broadcasting industries and in particular of the rule limiting one cable operator to serving more than 30% of pay-TV subscribers.

Moreover, although the resources of leading US groups dwarf their British counterparts, most are hit by lower advertising revenues and might find it hard to sell a big acquisition to shareholders. AOL Time Warner, an obvious candidate for a major European push, is under boardroom pressure to digest its existing assets, particularly in cable, before more deals.

Viacom, which owns the MTV music channel in Britain, and Disney both said they would consider any opportunities.

But Bertelsmann, which currently controls Channel 5, may not want to stand idly by and watch ITV, a much more prized asset, fall into American hands. Thomas Middlehoff, its ambitious chief executive, is reported to be fond of owning "institutions".

But such a play raises other issues. Competition regulators would inevitably force the German group to give up Channel 5 and Middlehoff may be reluctant to sell it to such a strong rival as Murdoch. RTL's last public statement was that it was committed to building Channel 5 with increased programming investment.

And is Murdoch still interested in Channel 5? The accepted view is that he has long coveted Channel 5 but his attentions have since been diverted by more pressing issues, such as gaining a controlling position in Germany's pay-TV market, possibly via a rescue of the subscription-TV arm of the now insolvent Kirch Media group. The price tag of up to £1bn may be too high.

Murdoch's lack of interest could spark another clash with his independent-minded BSkyB chief executive Tony Ball who has indicated that he would be interested in buying Channel 5, which he believes would provide useful cross-promotion for Sky programmes.

It would also give BSkyB a free-to-air terrestrial outlet and a bigger audience than the 5.7m homes currently willing to pay at least £36 a month for Sky, a market which analysts say is fast approaching maturity.

"If Channel 5 is for sale, it would have to be on BSkyB's radar screen," says Merrill Lynch's Blackley.

"In the absence of a sale, BSkyB may talk to Channel 4 about a joint venture using Channel 4's entertainment channel E4 as a base and bid for one of the digital licenses now being re-auctioned."

ABOUT the only certainty is that Carlton and Granada's stalled merger will be on once again – unless a bigger predator picks them off first. The bill removed the ban on joint ownership of the two ITV franchises in London, where Carlton holds the weekday licence and Granada the weekend, and the limit of a 15% audience share.

But even here, it is not a done deal. A merger could still be blocked on competition grounds and that is exactly what the advertising industry will demand.

Advertisers are angry that the bill ignores their interests and have threatened to delay any Carlton-Granada merger for years unless concerns over the potential for monopoly pricing of TV airtime are addressed.

Advertisers say the merger would be anti-competitive as a single ITV would have domination of the UK's biggest and most important advertising medium. Last year ITV claimed 57% of the £3bn TV advertising market and accounted for 26% of the UK's entire advertising media spend of nearly £12bn.

Airtime is currently sold separately by Granada and Carlton, which compete aggressively in London. The Institute of Practitioners in Advertising, representing advertising agencies, wanted a 25% market share cap on TV advertising which would prevent Carlton and Granada from merging sales operations.

The draft bill contains no limits on TV airtime sales and passes the buck to the Office of Fair Trading. The Incorporated Society of British Advertisers believes that dragging the issue through the competition authorities might also deter foreign broadcasters from making a quick raid on the two companies.

Spectrum Media's Watts estimates that a single ITV company would dominate with 65%-75% of the terrestrial TV advertising market.

"I would think it very unlikely that the competition authorities would block the merger," he says.

"But it is not clear that they would necessarily allow it to go ahead without attaching certain conditions."

David Ferguson, media analyst with Barclays Capital, adds: "Post-ITV Digital, Carlton and Granada may not have as many friends in the Competition Commission as they once did."

Simon Marquis, managing director of Zenith Media, says advertisers were becoming increasingly strident. "Given that we fund the greater part of TV programming, it is depressing that our concerns have not been taken seriously in this bill. But the game isn't up yet by any means."

However, ITV's joint managing director, Mick Desmond, counters that a single ITV would no longer be anti-competitive because of the bill's de-regulation of ownership.

"I could understand their argument before last Tuesday, but the bill changes everything," he says.

"Now Murdoch can buy Channel 5 and combine it with Sky and all his newspapers, creating a potentially larger advertising sales point than a merged ITV."

Advertisers are further disenchanted by falling ITV ratings which have effectively inflated prices. A tough round of annual rate negotiations can be expected to come in the autumn.

"The ITV Digital fiasco saw ITV take its eye off the ball. It is haemorrhaging audience share, yet we are paying more for airtime," says Chris Boothby, of media agency BBJ.

"The option of shifting more of our budget into Channels 4, 5 and satellite looks increasingly attractive," he adds.

For Michael Green and Charles Allen, the embattled chairmen of Carlton and Granada respectively, problems continue to mount on all sides. Getting into bed together may be the best defence – but there could be more tears to come first.

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Experts tip radio stocks as media shake-up looms

Nick Gardner

INVESTORS have an unprecedented opportunity to profit from a takeover frenzy after last week's shake-up in media ownership rules. In a draft bill unveiled by Tessa Jowell, the culture secretary, media firms from anywhere in the world will be able to bid for British television and radio companies.

Various other restrictions on cross-ownership of television and radio stations were also lifted. However, any takeovers will still be subject to competition commission scrutiny, and could be blocked if any one firm would become too dominant in advertising revenues or broadcasting in a particular region.

The move has boosted share prices in flagging media stocks, which have been struggling because of a drop in advertising during the economic slowdown.

Big media firms including Carlton and Granada were the biggest winners last week, rising on the news of the bill.

But investors who pick the right firms could benefit from further increases if evidence of an economic recovery, and therefore increased spending on advertising, comes through.

Favourites among experts are radio stocks. Jeremy Batstone of NatWest Stockbrokers said: "Shares in radio companies are far more attuned to fluctuations in advertising revenues. There are 10 major operators and that number could come down to three as a result of this bill.

"Some stocks have risen in anticipation of the takeovers and mergers, but if the economic recovery kicks in, then there will be more to come."

Justin Urquhart Stewart of Seven Investment Management said: "I think the big TV firms, Carlton and Granada, have probably risen ahead of themselves, so radio is the place to look."

He recommends Emap, which owns Kiss100, Magic and Radio City. "The sum of its parts is probably worth more than the share price reflects, so it could well have decent gains ahead," he said.

He also picked Scottish Media Group, which has a large stake in Virgin Radio, and Johnson Press, the local newspaper firm that would benefit from either a takeover or increase in regional advertising.

Simon Atherton of Aberdeen Asset Management tipped Scottish Radio Group, GWR, and Capital Radio.

He said: "Capital could be attractive to an international player, while the other two could be good targets for bigger domestic groups. Some of these deals may not happen until next year and there could be some profit-taking in the meantime, but we are optimistic that you will get a reasonable return from radio assets."

The Yanks are coming, Business Focus, section 3

The Sunday Times (Business)
12 May 2002
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AGENDA

Uncle Walt won't be visiting our media minnows

DEALS are thin on the ground. Investment bankers who in 1999 would not have clocked in unless they were guaranteed a $1m annual bonus are now working for nothing (see feature page 8).

But just as we were about to organise a benefit dinner for indigent bankers, along came Tessa Jowell and Patricia Hewitt and their Communications Bill, which appears to offer a fillip for the takeover specialists.

But let's not get carried away. Once the excitement of a promised free-for-all in the media industry evaporates, investors are likely to be looking at a series of small strategic deals rather than the hoped-for Big Bang. Polishing the family silver and rolling out the red carpet in anticipation of a visit from Disney, AOL Time Warner, Viacom or Vivendi may be a waste of time. The telephone-number deals that hit the headlines three years ago have turned into nightmares for their instigators.

Confirmation that media has been accorded the status of a fully grown industry capable of looking after itself is overdue. The first result is likely to be a shake-up in the radio market, with Capital, GWR and Chrysalis all considered ripe for the picking. But the radio sideshow has been overshadowed by intense speculation centred on the possible sale of Channel 5 and the likelihood of a bid for ITV.

The Channel 5 story is intriguing given that RTL, which owns 65% of the business, seems to be in no rush to exit the station. Indeed, when German-based Bertelsmann bought Pearson's stake in RTL for £944m last December, we got the distinct impression it was a buyer of media properties and not a seller. Despite a $1 billion hit from internet start-up losses, it will be a surprise if Bertelsmann misses the opportunity to take out United News & Media, the minority shareholder in Channel 5.

That leaves ownership of ITV as the remaining loose end. The matter could be resolved if Granada stopped public pussyfooting with Carlton and made a decent offer that Michael Green could put to his shareholders. The problem is that the City may have little appetite for giving an even bigger company to Charles Allen of Granada, whose fan club is losing members.

Granada shareholders know that if there are more delays, Bertelsmann could be encouraged to break up the courtship.

The Independent on Sunday (Business)
12 May 2002
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The joint is jumpin' in radio land

Observers of the media industry might wonder why a few large, powerful companies have been allowed to dominate television while, in radio, tough regulations have led to odds and bods all over the place.

Feelings run high on the issue. "Why has the radio industry been neglected compared to TV?" rants one radio executive. "Because politicians want to get their mugs on the telly to push through their policies, so they care about TV."

Whether it is the Wireless Group's Kelvin MacKenzie raving about the unfairness of the method used to measure audience figures, or the more common complaint about how the mighty, state-funded BBC throws its weight around, radio generates strong opinions.

Last week, the industry had something to smile about. Antiquated and complex, the current regulations – with a points-scoring system that few understand – are to be scrapped. The draft Communications Bill will allow TV and newspaper companies to buy into radio more freely. As if to prove a point, the Guardian Media Group, which owns *The Guardian* newspaper and has numerous small investments in radio, launched a surprise bid for Jazz FM on the very day that the Bill was announced.

Even under the current regulatory regime, GMG is not prevented from buying Jazz. But the move indicates the kind of posturing that companies will be doing to get the industry ready for when the Bill becomes law towards the end of next year.

In essence, buyers could come in and snap up tiny, independent companies to consolidate them into a position where hungry US companies can then buy them, when they are allowed to.

"The biggest positive of the Bill is that it gives a green light for venture capitalists to put together a new local radio group," says Jonnie Goodwin, head of media corporate finance house LongAcre Partners.

US companies like AOL Time Warner, Clear Channel Communications and Walt Disney are the favourites to dip their toes in when the time is right.

"I welcome the regulations that allow the US in because you have more cultural empathy with America than you do with Europeans," says Richard Huntingford, chief executive of Chrysalis, the multimedia company which owns Heart FM and the various Galaxy radio stations.

"They could eat most of the UK industry for breakfast," adds Ralph Bernard, chairman of GWR, a large radio company controlling numerous local radio stations, as well as the classical music station Classic FM.

Although advertising is depressed across the media, radio is becoming increasingly attractive as an outlet. Last Thursday, figures from Radio Joint Audience Research, the industry's audience measurement company, revealed total listening hours in the first quarter of this year up 5 per cent compared to the same period last year.

"Advertising revenues are showing signs of picking up again. Radio also has a growing audience, and creatively there's a better quality of advertising," says Richard Wheatley, chief executive of Jazz FM.

Another of the industry's selling points is that a new age in "digital radio" is looming. Although digital TV is proving to be a bit of a mess, the benefits of the new type of radio will be more obvious. Better sound quality with fewer hisses and crackles will entice car manufacturers to put it in their vehicles, while companies like UBC Media are developing ways of putting out website-style material via radio and so undercutting telecoms companies' nascent 3G services.

At present, however, the digital receivers required are expensive and hard to come by. Manufacturers can't find economies of scale and so have been slow on the uptake. But digital radio stations are broadcasting at the moment – around 50 in London alone, according to Mr Bernard – even if there are few listeners.

Radio station owners are also excited at the prospect of being owned by a large media company able to compete with the BBC, which has more than half of the listening market. "The BBC is a big organisation that cross-promotes," says Chrysalis's Mr Huntingford. "Clearly if one can create [other] big cross-media groups, that will be good for the media as a whole."

At the moment the top prize is Capital Radio, which runs London's popular Capital FM and has other strong stations around the country, such as Century FM. The other larger companies are Emap, with the Magic and Kiss brands; Chrysalis; GWR; and the regional operators SMG and Scottish Radio Holdings.

Despite the consolidation frenzy predicted in the industry, GWR's Mr Bernard thinks small independent stations will survive. "There will always be lots and lots of smaller companies that won't be hugely profitable, but will serve specific interests," he says.

Mr Bernard knows all about the hostility a large company can face when taking over an independent. "The vitriol they get is extraordinary sometimes," he says, speaking from his own experience when buying the Breeze and Essex FM stations in 2000.

Addressing the House of Commons at the time, Christine Butler, the local Labour MP, described how devotees "shed tears". But Ms Butler has since lost her seat, and Mr Bernard can have the last laugh: the two stations now have a 19.3 per cent share of listening in the local area, compared to 18.1 per cent just before the takeover.

When the large US companies start a passionate romp among the UK's radio stations, there are bound to be more than a few lovers' tiffs.

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Dunstone backs plans to overhaul radio figures

BY DAMIAN REECE

CARPHONE Warehouse, one of Britain's biggest radio advertisers, is backing attempts by Kelvin MacKenzie's Wireless Group to introduce radical changes to the way radio audiences are measured.

Charles Dunstone, chief executive of Carphone Warehouse, is calling for a more accurate method of measuring radio audiences to ensure advertising budgets are spent in the most effective way.

At the moment audience figures are compiled by Rajar, owned by the BBC and commercial radio stations, and rely on people completing a weekly diary of their listening habits.

"Anything that anyone did to make it more accurate must be a good thing," Dunstone told *The Sunday Telegraph*.

"Everyone should welcome it because the amount of money traded on that basis is immense. Accuracy is really, really important and we are keen to know as much as possible about which customers are listening to which stations and at what time and get as much information about that as we can," he said.

Dunstone's comments come just two weeks after Procter & Gamble also came out in support of MacKenzie's initiative. Advertisers spend about £550m a year on radio with Carphone Warehouse accounting for up to £7m of that.

"Audiences equal revenues which equal profits which equal valuations for radio companies," said MacKenzie. "If the audience numbers are a load of tosh then investors are being misled as are advertisers."

If MacKenzie is successful in forcing the radio industry to change, then commercial radio stations could see significant changes to their advertising revenues.

MacKenzie is piloting a scheme which uses a wrist watch containing a digital chip to record exactly what a person is listening to at any time of the day, regardless of their location.

His most recent figures show that talk stations such as LBC and niche broadcasters such as Premier Christian have much wider reach when measured electronically than under Rajar. Music stations such as Capital Gold, Classic and Jazz FM do much worse.

But the radio industry hit back this weekend claiming that while electronic audience measurement might be the future, MacKenzie had jumped the gun.

Justin Sampson, a Rajar board member and managing director of the Radio Advertising Bureau, said: "Two systems for electronic measurement have emerged and Rajar is itself testing both. By this time next year we should understand the implications to the point where the industry can decide whether the increased costs of electronic measurement are justified."

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Jazz FM board to veto GMG takeover

BY DAMIAN REECE

JAZZ FM's laid-back vibes will suffer heavy interference tomorrow when the station's board votes against a £41m hostile takeover bid from Guardian Media Group, publisher of the *Guardian* and *Observer* newspapers.

A board meeting is scheduled for 10am when directors will be asked to vote on the bid which was made last Tuesday at 180p-a-share. Although GMG has control of 50·5 per cent of the shares, it is understood Jazz FM believes the company is worth substantially more than 180p, a view shared by other investors in the company.

Aberforth Partners, Jazz FM's leading City investor, was last week buying shares at the 180p bid price in expectation of a higher offer, either from GMG, chaired by Paul Myners, or a rival bidder.

Last week's draft Communications Bill opened the way for a takeover frenzy in the radio sector, with Jazz FM seen as a prime asset in any bidding war.

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MARKET MISCELLANY

■ EINSTEIN Group (1·75p), the penny share which is building a niche broadcasting and media group, is working on a deal to buy 32 local television licences which cover large towns and cities in areas such as the South West, Essex, Suffolk and Cambridgeshire. The licences, granted by the Independent Television Commission, broadcast on normal terrestrial television alongside national and regional channels. They will carry a mixture of local news and magazine programmes which research shows are popular with local audiences. Einstein is buying the licences through a joint venture with a US consortium led by Tom Benedetto, owner of the Boston Red Sox baseball team. The consortium invests in similar businesses in the US, where local stations account for 25 per cent of TV advertising revenues. Investment in targeted, local television here could take off in the same way. Buy.

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DOES THIS MAN HAVE IDEAS ABOVE HIS STATION?

M.SS

Greg Dyke has broadcast his intention to 'cut the crap' at the BBC. But taming the overgrown media monster may be easier said than done

The BBC employs 24,000 people and broadcasts 39 hours of television, radio and internet streaming for every one hour of real time. It runs one of the world's biggest and most used websites – www.bbc.co.uk. In Britain it consumes £2.5 billion annually, raised from the licence fee, and, overseas, another £183m in grant aid from the Foreign Office. No other public-service broadcasting organisation in the world is anything like as rich and powerful. And no other public service in Britain looks so good. To walk from an NHS hospital to the BBC's White City building is to walk from a slum to a palace.

The BBC's dominance of the British broadcasting market is now complete. ITV is in the midst of an advertising recession, cutting costs savagely and desperately searching for a way out of the disaster of ITV Digital, a project that has consumed more than £1 billion. But through the BBC run rivers of gold, thanks to a generous licence-fee settlement that lasts until 2007, and its independence from the advertising market. As a result, this year it has launched a new digital highbrow TV channel – BBC4 – and will soon launch another aimed at youth – BBC3. Five new radio channels are also being launched. Money is being poured into new drama and films. Annual funding for BBC1 alone has passed £1 billion. Both TV and radio ratings, meanwhile, are at all-time highs. The BBC is no longer the competition for the commercial sector: it is the environment.

But it wants more. Suddenly, Greg Dyke, the BBC's pugnacious director-general, has emerged waving a yellow card that says: "Cut the crap". He has a battle plan that aims to make the BBC "the most creative organisation in the world". After two years in the job, he has just got a grip on this huge broadcasting machine. And the way he sees it, it's barely even ticking over.

So what's going on at the BBC? Is it good? What's it for? Who's it for: the white middle classes or the multicultural masses? Can it last? Do we want it? Above all, what does it mean? After months of paranoid negotiation, the BBC has let me ask. It fears I have "a line", an agenda. It thinks Rupert Murdoch is standing at my shoulder telling me what to say. He isn't. Warily, it lets me in.

Let's start with Dyke. Director-general is not a natural job for him. It is a step back from broadcast immediacy. "My ability to affect what's on the screen tonight is nil," he tells me. I first encounter him in a big room full of tables in White City at the "DG's briefing", a monthly meeting of the top 100 executives in the BBC. The atmosphere is clubby and faintly raucous. It's like a pub on quiz night. People are carrying in coffee, muffins and croissants. Dyke is speaking about what has happened since the last briefing. For one thing, Jamie Theakston, a BBC youth star, has been caught in a Mayfair brothel. "He's young and single," says Dyke. "Half of us caught in brothels with prostitutes are neither."

Laughter. The execs love it. Dyke's a bloke and this is a blokes' do; even the women are blokes. He introduces two "consultants" lurking nervously at the back of the room. "You're the only consultants that have been in this place for two years." The execs laugh again, this time with a slight edge. He has reminded them of a time they'd rather forget: the consultant-infested years when Sir John Birt was director-general. One senior BBC staffer told me over a secret breakfast meeting: "Birt left a huge reservoir of hatred and contempt behind. Everybody thinks he's a w***er."

Lord Hollick, this month's guest speaker, gives a talk. It's off the record, but don't worry, you're not missing much. Then Dyke again. He gives them the gist of a speech he will deliver the next day to the whole BBC staff at studios around the country and via videotapes. This is his big push, his grand statement that he's on top of the DG job and ready to move forward. But he's carefully self-effacing.

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"This speech is so long, I'm bored by it."

More laughter. He's on a roll. But it's a controlled roll. His talk is a clever balance of what's right and what's wrong. He defends the BBC against the dumbing-down charge, comparing the critics to the Jewish rebels in the Monty Python film The Life of Brian – "What have the Romans ever done for us?" He reels off a long list of great, undumb BBC shows. But he also tells a significant story. There had been an issue of a deterioration of broadcast quality involving some new technology. Dyke and a bunch of execs had turned up to look at a screen and check it out. They couldn't see any problem and okayed the technology. As they were leaving the room, a voice called from the back: "News doesn't agree." Dyke exploded. It turns out news had sent along a junior exec; since he didn't have the power to agree, he dutifully disagreed. It's a real old-style BBC moment, evidence of the bad bureaucracy he's been trying to root out. "News doesn't agree," becomes a standing joke between us. Later we speak after a story has appeared in the Sunday papers about a plan to dumb down television news. It's not true, he says, and it was put there, he knows, by disaffected BBC news staff. "I have no doubt about that. They can e-mail me or talk to me; my door's always open. The politicians and our political staff are probably closer than our political staff are to the rest of the organisation." Leaking against the BBC drives him crazy. He once sent an e-mail to every member of staff saying, in essence, stop whingeing or get out. No other organisation, he says, would put up with the internal bickering and external bitching that goes on at the BBC. It's a tradition and he hates it.

Next day, I am in a studio at Television Centre to see Dyke deliver his boringly long speech. As we file in, I ask my PR minder if John Birt ever did these events. "Yes, but they never really worked." Birt was sometimes persuaded to have "impromptu" meetings with staff, but only on the condition that questions were submitted *two* weeks in advance. And Dyke tells me that, at executive meetings, if anybody said anything too far out of order, they were taken outside and told never to say it again. "It was just mad," he says.

"You couldn't have done this two years ago," says one executive as I sit down to interview him with a single PR taking notes. "There'd have been apparatchiks in attendance."

In the studio, Dyke is introduced by the news presenter Fiona Bruce. "We've got Greg," she announces. They are using the set of Johnny Vaughan's chat show. This is not Dyke's natural habitat. He is more nervous than yesterday, less blokeish, and he is reading from an autocue. He goes through the BBC's triumphs and tells the troops they are at a turning point. "Getting ratings isn't our only aim: we have a greater purpose than that." I become more aware of his speech impediment, his problem with the letter R; it softens the edges of his London accent. Again the Birt years are trashed. Then, the great aspiration was to be "the best-managed organisation in the public sector". Dyke pauses dramatically. "That wouldn't get me out of bed in the mornings."

Laughter. His goal, in contrast, is to make the BBC "the most creative organisation in the world". To do this he has seven new demands of the staff: inspire creativity everywhere, connect with all audiences, value people, we are the BBC, just do it, lead more, manage less and make great spaces. Seven bosses have been allocated to the seven categories. He expects them to deliver and he expects everybody down to the cleaners to take part. He wants people to take risks. "I'll back you even if it goes wrong."

One of his biggest targets is the "them" culture. He had noticed that, whenever anything went wrong at the BBC, people blamed "them". There is no "them", he says; the BBC is *us*. There's nobody out there stopping staff doing things; there's only the people who work there. And he has his yellow card, which is to be handed out at bad meetings. "Cut the crap," it reads, "make it happen." The top executives, he announces, have agreed to cut the number of meetings in half. Everybody else must do the same. One employee from the regions prefaces his question to Dyke with the words: "This is the most inspiring event I've ever seen at the BBC." Like I said, this man's on a roll.

I see him at work when we tour the offices and studios of the new digital children's channels. He shakes hands with everybody – "Hi, I'm Greg." As if they didn't know. He's famous for this mateyness. If there's a problem with cleaning or the lifts, he talks to the cleaners or the lift men. Studio execs show him some startling new technology: a whole broadcast system in a suitcase, and a studio light that never gets hot. He enthuses about everything they are doing. If there's a problem, he demands to know who's causing it. He's "a good bloke", one of the lads.

We have lunch. It's basically salad. "Good for my diet," he says gratefully. "It was a shock to me," he says of his arrival at the BBC. "I was unhappy with the first year. It was just a difficult place to come. John [Birt] did many things that were necessary but they were deeply resented. Nobody spent enough time getting the staff on side. Whether you could have got them on side, I don't know. Plus, it's an organisation of myths. There were so many stories around, driving down morale."

Birt was, in fact, shuffled out with indecent haste to make way for Dyke. "Well, there was supposed to have been a long handover. But one of the reasons they made him a lord was to move him out faster. It was supposed to be a six-month handover. But it was difficult." When he first got into the DG's limo, he found a huge pile of

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documents about next day's meetings that he was supposed to read that night. "I've never read that much in my entire life... I was shocked by the amount of paperwork and meetings. And everybody was writing reports, and they were all cover-your-arse reports. It took a year to stop them doing that." His first days were back-to-back meetings and, in between, hundreds of messages he couldn't answer. Going round the building was like embarking on a royal tour – "You had to stop them getting the red carpet out. One department went out that morning and bought a tea set. I hope they washed it and took it back. They could have got their money back."

It's become a joke, but it wasn't at the time, far from it. Dyke admits he had a bad first year, but it was more like 18 months and according to friends it was worse than bad, it was horrible. He couldn't get a grip on the place or penetrate "the permafrost", the vast regions of the BBC that no top management decisions ever seemed to crack. He insists he never considered resignation – "I'm not that kind of operator" – but I know it was talked about. The upside was that he knew he could get the finances right. In February 2000, the BBC was given a dream licence-fee settlement – 1.5% above inflation for the next seven years.

The problem with all public-sector finances is the same: everybody moans they haven't got enough money and then proves it by overspending. So Dyke allocated all the licence-fee money for the duration of the settlement. Then he threw in another £500m, which he would bring in through cost savings, notably by cutting Birt's management bureaucracy. Sacking the consultants McKinsey saved £28m a year. Around 24% of total BBC revenue went on management costs under Birt. Dyke has now cut that to 17%. He thinks he can go lower, maybe 10%. Much of the present expansion of the BBC has been financed by this shift.

The effect of the pre-allocation and the deliberate overspend was to make it clear that there was no more money to be wheedled out of the DG. Departments could do what they liked, knowing their budgets, but they couldn't ask for more. "I had to convince the whole place that there was no slush fund sitting here." That may be so, but the BBC is still not behaving like a lean, fit organisation. Launches for big new shows are always glitzy, expensive events with champagne and costly canapés. There's still a suspicious amount of BBC executive dining at London's Ivy restaurant. The new offices – especially of BBC4 – are pricey slices of state-of-the-art corporate design. Dyke may think he's on top of the spending. It's hard to be convinced.

But at least his dark night of the soul is over. He's on top of it and ready to think about the big issues, like society. He got in trouble last year for describing the BBC as "hideously white", but he's unrepentant. "London will be 40% non-white by the end of the decade. You can't have an all-white BBC: it just doesn't make sense at all." And he's very conscious that, with his thick London accent, risqué jokes and frequent use of "f***", he's not the traditional model of the BBC boss. A lot of the campaigns against his appointment, he believes, were really fired by old-fashioned snobbery. He suffered, above all, from his reputation as the man who saved TV-am by introducing Roland Rat. "In America, if you'd done what we did at TV-am you would be heroes, but in Britain you'd never be a hero for that. There was a deep-rooted belief in parts of Britain that you could always make crap, cheap TV and game shows and people would watch it. It's just not true any more.

"The great thing about this country today is that a lot of stratification has broken down and it's possible to be a person who watches EastEnders, enjoys football, is a fan of opera and likes classical music. That plays right into the BBC's hands, because that's what the BBC is. We do have problems, in the sense that we are an institution in an age that does not like institutions any more. One of the biggest problems, I suspect, is that we live in a political world, and I'm not sure many politicians are that much in touch with the public."

Dyke's project now is to galvanise the BBC, melt the permafrost and ensure it exploits its current dominance. His big internal problem is that, as one sceptical executive explained, he may not have the in-house talent: "He's got to produce four big television events in every sector every year to justify the BBC's position." This explains his creativity drive. He knows that Walking with Dinosaurs, and The Blue Planet – the two biggest and most characteristically BBC hits – are just the beginning. He's got to repeat such successes again and again. The target is to retain a 30% audience share by the end of the decade, when the nation will be almost entirely digital and the airwaves will be awash with competing channels. "At least if we get 30%," he says, "ITV will have 15-20%, Channel 4 will have 5%, and the rest, 50%."

His big external problem is that ITV doesn't like these figures one bit, and is now lobbying furiously against the BBC's near-monopoly power. David Liddiment, ITV's director of programming, has attacked the BBC as "a nakedly commercial beast". The two big ITV companies – Granada and Carlton – must, in spite of their well-publicised difficulties, one day merge. They may then be taken over by a global player, and the BBC will be up against real money.

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Then there are the politicians. Dyke says there are MPs on both sides of the house who want to privatise parts of the BBC. He knows the pressures involved – notably the ITV argument that the BBC so badly distorts the broadcasting market, it makes it impossible for Britain to grow a big media player in the independent sector. Backroom briefings from the commercial bosses have recently led to a wave of anti-BBC press stories that have piled on the pressure.

Dyke is not alone in facing these problems. There's also Gavyn Davies, BBC chairman. He is not a bloke, he's an economist. One rising BBC exec remarked that "Economists are people without the imagination to become accountants." This is generally true but probably unfair in Davies's case. He is as unlike Dyke as it is possible to be. Physically he is softly fleshy, as opposed to the compacted bulk of the DG, though his hands are strikingly delicate. He speaks softly and carefully, in contrast to the DG's sudden outbursts, and he has a very noncommittal beard. Instead of Dyke's fluent mateyness, there is a weirdly strangulated speech pattern. Davies, like Dyke, has suffered badly from the accusation that he is a new-Labour crony and is close to Blair and Brown. Some say he's not quite close enough: was he, for example, given the BBC job just to console him for not becoming governor of the Bank of England, a role he was promised by Brown? Nevertheless, it seems reasonable to ask him whose crony he is. Reasonable to me, but not to Davies. "I am not anybody's crony, and frankly I'm not willing to sit here and be interviewed as if I was applying for the job." Okay, so, unlike Dyke, he's touchy. "If people say my previous links with Tony Blair and Gordon Brown make me unsuitable, I would emphatically reject that. Virtually all chairmen of the BBC have had known political views and they leave those views outside this organisation. What matters is that you stand for the best of what this organisation stands for."

Davies is also unlike Dyke – and almost everybody else in the BBC – in that he won't hear a word against Birt. "What I am certain of is that, under the John Birt period, this organisation became enormously more efficient and more competitive. I did a funding review that looked at the efficiency and productivity of the BBC in the late '80s. It was a flabby, indulgent and inefficient place. Margaret Thatcher's complaints were justified, and John changed that over a decade.

"The criticisms John is getting are really unfair. Like all of us, he has strong points and weak points. But at the moment, the media seem to have a witch-hunt mentality about John. I really do think it's unfair. The fact that Greg and I can sit here today leading an organisation which is structurally correct, has the correct channel structure and online presence and the right radio structure, is down to John Birt."

I phone Dyke at home to try those out on him. "So you agree with Gavyn that Birt did some very good and necessary things?"

There is a significant pause. "Er... Yes."

If Dyke is the doer, Davies is the theorist; if Dyke is emotionally attached to the BBC, Davies's commitment is intellectual. He believes broadcasting is an industry that cannot be left to the free market, it suffers from "market failure".

"The UK has 250 commercial radio stations, all of which provide the same things – well, that's unfair to Classic FM. I think the core purpose of the BBC is to provide a different type of programme, and that is more true now than it has ever been. I think there is a market failure in education, and I think the same about broadcasting. It may be one day that the market has developed in such a way that it makes the BBC redundant, but I don't think we're anywhere near even contemplating that possibility."

Market failure means that commercial broadcasters tend to converge on one type of output – pop music on radio, game shows, nuts'n' sluts, soaps on television. Furthermore, they tend to converge on American material. The might of the US media giants is such that they could easily fill the world's broadcast systems – and, increasingly, they do. Both Dyke and Davies are convinced that this can only be resisted by a regulatory system that ensures the production of indigenous programming. "Other countries would be very lucky if they could achieve something like the BBC," says Davies. "We are very lucky to have this anomalous broadcasting system that remains independent of government. We've never been the state broadcaster. If we'd lost our independence, we'd never have retained the place we have in popular esteem... I've been to lots of public meetings and I've asked if people they would save their licence fee and give up everything the BBC has had to offer. Nobody has ever answered yes to that question."

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The problem with this argument is that, though market failure may justify some kind of broadcasting protected from commercial degradation, that just may entail having one television and one radio channel. It does not necessarily entail a gilded monster like the BBC. The answer to that is: it works, we've got it, people like and trust all sorts of different bits of the BBC, so why fix it if it isn't broken?

The mantra flows smoothly down through the organisation. "To me," says Jenny Abramsky, head of radio, "the BBC delivers quality, it delivers things that, if it wasn't there, wouldn't be there."

"In a world of second-hand sources of information," says Richard Sambrook, head of news, "a big, publicly funded corporation that says, 'We'll be there and we'll report it first-hand' – well, the commercial sector here and in the States can't do that, it can't sustain it."

"It's important," says Alan Yentob, now the creative boss of a new drama, children's and entertainment division, "to allow the BBC to deliver on its indigenous role, to bring together British people with a British perspective and get the very best programming."

And here's Roly Keating, controller of BBC4: "There's still a long way to go. It's a huge, baggy, complex organisation. For it to really come together, it will take longer. Greg has the willingness to do that – to gets different bits of the BBC working together. The sense of what we can achieve is awesome. Let's not just play these little chords, and play the really big chord and make the whole thing sound together."

Above all, Dyke, unlike Birt, seems to have them all on side. "The place has relaxed a bit," says Sambrook. "One of the first things Greg said was about making great programmes. There was a huge sigh of relief – this was someone who recognised that's what most people in the BBC wanted to do."

They are all right, but everything would collapse if the BBC lost its independence from government and became the state broadcaster. This has always been a threat because of the peculiar constitution of the organisation – for example, it has to rely on government to rubber-stamp all its new channel plans. And in spite of Davies's protestations, the threat has become more serious recently because of the Blair administration's pathological obsession with presentation. In that context, the appointments of both Dyke and Davies were rightly seen as suspicious. Politically, they both need watching very carefully indeed – not necessarily because they will be biased, but because they might cave in when the heat is on. And, as my breakfast pal told me, "If the staff of the BBC were the British electorate, Labour would never be out of power."

This is felt most acutely in news. Last November, the BBC started a big review of news in the wake of the poor turnout in the election and declining news audiences. Davies has made it clear that he doesn't think it's the BBC's job to make people vote, but it is the BBC's job to keep up news ratings. The research found that 40% of the population is "disengaged" from Westminster politics, and that under-45s watched 25% less news than over-45s. "We have to find a new approach to politics," says Sambrook. "We've fallen too tightly in league with Westminster. People are passionately interested in issues, but they are not interested in pictures of an empty House of Commons." It was thoughts like this that led to the dumbing-down charges. BBC Westminster staff and their MP pals had almost certainly conspired to thwart changes that would have downgraded their importance, by leaking to the press.

In fact, I don't think Westminster is the problem. The real turn-offs are the interminably unrevealing, combative interviews that now pass for political coverage. This is not solely the broadcasters' fault. Politicians are now so tightly briefed to say only what they want to say that interviewers have no choice but to take them on. There's never any real discussion. "John Humphrys and Jeremy Paxman both cast a very long shadow," says Sambrook. "Actually, beyond those two, there isn't anybody who approaches it in quite the same way."

News is a critical – perhaps *the* critical – BBC activity. Both at home and abroad, it is what is most distinctive about the brand, and is central to the corporation's identity as a public-service broadcaster. But its position is perpetually unstable, now more than ever. Dyke wants ratings and news doesn't provide them, so it will tend to be squeezed in the schedules. News is also very expensive. And politically, news has to walk several tightropes, trying to be neutral without being dull and constantly fending off or, even worse, welcoming the attentions of the government of the day.

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On top of that, Dyke doesn't like the leaky, restless dissidence of news. And especially doesn't like the fact that a straightforward news cock-up resulted in a story suggesting links between Oryx, an African diamond-mining firm, and Al-Qaeda. This could result in one of the biggest libel settlements in history: Oryx is going for £6m. "Incandescent" was one of the milder terms for his mood when this landed on his desk. "News doesn't agree," became a joke between Dyke and me because news is a problem in his brave new, cut-the-crap world. The news balancing act has become more fiercely complex than ever.

But it's all more fiercely complex than ever. "What does the BBC do?" is not a question that is easily answered in a climate of convergent or possibly divergent forms of communication. Future use of technology is uncertain, and the BBC could perfectly well be getting it all wrong. It wasn't long ago, for example, that people were forecasting that the BBC would have abandoned radio by 2000 as television took over. "There was a genuine belief in the 1970s and 80s," says Abramsky, "that radio would inevitably die out... It developed in radio a siege mentality: every initiative had a defensive attitude around it."

BBC radio is now stronger than ever. Though its share of the funding cake has been dropping – it now spends 19% of the licence fee – its audiences have been rising. In spite of all the forecasts, young people are listening to more radio. And, for credibility with the government and to satisfy its own right-on credentials, the BBC is very keen on young audiences. Too keen, in fact, since youth is already so well served. But BBC3 – the new digital channel awaiting approval from the culture secretary, Tessa Jowell, at the time of going to press – is aimed at youth. And the new digital radio station, 1Xtra, is to be launched in the summer to provide "cutting-edge urban black music".

Now, having kept its role in radio and TV, the BBC is expanding aggressively into "new media" – the brave new world of interactivity and connectivity. Lord Reith's statement of purpose – to inform, educate and entertain – has been modified by Dyke. It now reads: "To educate, inform, entertain and connect." This means the BBC has to get out there. "I think we've got a very important role," says Ashley Highfield, head of BBCi, the new-technology operation. "If we didn't do it, there'd be a dearth of good British content on the separate platforms." Highfield is leading what he expects to be a long and deep decline in "linear" broadcasting. Except for live events, he thinks there will soon be no reason for people to be enslaved by the schedules. Channels will become "buckets" of programmes into which we can dip rather than schedules we must obey. "We've got to start denting 'appointment TV'."

And so, since last Wimbledon, when digital viewers could watch any number of games, the BBC has become market leader in interactivity, as it intends to in internet services. It has done a telecommunications deal that should mean BBC technology and content drive the third generation of permanently connected mobile devices. The trick then will be finding ways of guiding people through the mass of content. Just as now the net tends to drive you back to the big American players like Amazon, Microsoft and AOL, so in the future you will be pushed towards the BBC.

Highfield is even working on putting pictures on digital radio. Instead of the blue screen you get when you listen to radio through your satellite-connected TV, you get moving images. Dyke was sceptical – "That's f***ing TV, isn't it?" he said.

This all means marketing and branding, and that means Andrew Duncan, head of marketing and communications, who was brought in from Unilever. In appearance alone he is, perhaps, the most vivid demonstration of the new mood. Whereas Yentob's expensive black suits and T-shirts were once the grooviest thing in the upper echelons, now it is Duncan's jeans, sneakers and floppy tops. Though 39, he looks 19. But does the BBC need marketing? Should public money be spent on selling rather than just doing? "Actually, that debate is over," he says. "Intellectually we've got over the hurdle of whether the BBC wants marketing. Greg knew it mattered but he didn't understand. I think the biggest single thing now is about real focus on the audiences. For me it's much more fundamental than audience research. A lot of public-service organisations have lost sight of the fact that they have to serve the public. Somehow they get caught up in politics and accountability. The most successful companies in the world all have a strong focus on customers. The BBC has always been lacking in that area."

Duncan, like many others at the BBC, regrets that they did not get the two big hits from ITV and Channel 4: Pop Idol, and Big Brother. This is an important point. The Blue Planet may spring from the BBC's heartland. But if it is to retain market share, it must also go for the big down-market programmes, and it is simply not as good at this as ITV. And as ITV is squeezed, it is certain to come up with more such ratings-grabbers. The trick will be to fight this war without losing all credibility. The other trick will be to reinforce identity. Duncan sees the BBC as suffering from "negative synergy" – the whole is seen as less than the sum of its parts. People who love Radio 3 are not necessarily crazy about BBC1, and don't see them as part of the same thing. Duncan wants

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to "join things up better". Logos will appear everywhere, notably on a new poster campaign that will be dominated by the letters "BBC" but will advertise all kinds of programming. The BBC is on a roll and it wants to brag about it.

But there is something wrong, possibly seriously wrong. Obvious evidence of this came not long after I interviewed Davies. He made a massively ill-judged speech, saying those critics who charged the BBC with dumbing down were all white middle-class southerners. Even the old lefties, who should have supported him, didn't. In fact, the BBC does have a slight demographic problem with racial minorities and a slight north-south divide. But you deal with that; you don't shout about it, and you certainly don't abuse another massive sector of society. Dyke learnt his lesson about this kind of thing after his "hideously white" comment. Davies should ~~have learnt it too.~~

Furthermore, the BBC walked into a glaringly obvious trap over its coverage of the death of the Queen Mother. Lack of enthusiasm and uncertainty was clear from the beginning and, fired by ITV lobbyists, the critics zeroed in for the kill. Again, this was stupidity. The BBC had allowed the antimonarchist, soft-left agenda of its own staff to lead it into a tactical error. Whatever its people thought, it should have smothered the occasion in unquestioning coverage, to avoid the easy but very damaging sniping that its half-hearted coverage inspired.

Such gross errors cast doubt on the BBC's ability to sustain a convincing broad, popular identity. They also raise questions about exactly what level of accountability is at work here. One gets the strongest feeling that the BBC is primarily accountable to the sensibilities of its own staff and its two Labour chiefs. They have to convince me and everybody else that that is not the case. If they can't create a clear identity and demonstrate real accountability, then they can't, in the long run, justify the BBC's existence.

At the moment the justification is a conflicting mix of rhetoric from Davies and Dyke. Dyke says it's all about energy and creativity. Davies speaks in the economist's language of market failure. These are, however much they may deny it, two different things and imply two different strategies.

But everybody is agreed that justification is not to be found in the management babble of the Birt years. BBC executives, led by Yentob, have recently been touring the most groovily fashionable companies in America – Southwest Airlines, Ritz-Carlton, Cisco Systems – to imbibe the new language of leadership as opposed to management. It might still be babble, but it's the new babble.

No, the BBC's justification must be something else, something to do with identity, with national purpose, with seeing things as good in themselves, something to do with Yentob's view that "the BBC has to have a share of hearts and minds". Such things are easily lost in the jargon of economists.

As I left my interview with Davies, he said: "I look forward to the output."

"It's not output," I replied, "it's writing." I don't think he understood.

But, as I started with him, I should end with Dyke. As Fiona Bruce said, we've got Greg. He's the issue. I, in common with almost everybody who meets him, like him. He's clever and, beneath the heavy blokeishness, thoughtful. He'll constantly be in trouble, mainly because he shoots from the hip and often hits his foot.

He knows that the BBC, for all its power and might, is unstable. It has potent enemies within and without. His motto is "one BBC", but he knows that ideal unity is still far off. But, after a hellish induction process, he now thinks he knows how to get there.

But the enemies are massing. ITV is bitter and busily whispering in the ears of journalists and politicians. The BBC's very success is now being used against it. It is said to be a dangerous monopoly, a market-killer, a dumber-down. Davies's speech gave them more ammunition. The next few years are critical to the BBC's survival. It is time, as Dyke knows, to shut up and deliver. But can they, in the last analysis, cut the crap? ■

The Sunday Telegraph (Business)
12 May 2002
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Channel 5 comes alive

Astute programming and a Communications Bill have transformed the station's fortunes, writes **Damian Reece**

How could any television station which relied for its ratings on a naked Keith Chegwin hosting a jungle game show seriously hope to survive?

But Channel 5, the broadcaster launched on the founding principles of the three Fs – football, films and fornication – has soaring advertising revenues, booming audiences and a new-found reputation for success that ITV, its main commercial rival, would die for.

Valued by analysts at £750m, Channel 5, once the village idiot of terrestrial television, now finds itself the sought-after marriage partner of every TV mogul and newspaper proprietor around, with Rupert Murdoch heading the queue.

Thanks to the publication last week of the Government's draft Communications Bill, which suggests axing restrictions that stop UK newspaper owners and non-EU investors controlling terrestrial TV stations, Channel 5 is now the real thing.

With Channel 4 under state ownership and ITV still out of the reach of Murdoch even under the proposed new rules, Channel 5 is the biggest chip in play for the major shareholder in BSkyB.

Channel 5's owners, RTL of Germany and Lord Hollick's United News and Media, look like striking it rich should they choose to sell. Channel 5 might even turn a profit next year, according to some analysts, well ahead of its business plan.

"We will outperform the market by around 20 per cent this year on advertising revenues," says Nick Milligan, Channel 5's deputy chief executive.

But Channel 5 is increasingly valuable, mainly to Murdoch, not just because of its improved performance. It represents a unique chance for Murdoch to showcase his premium pay-TV, such as BSkyB's Premiership football, to a new audience.

As the fifth and final terrestrial TV station, Channel 5 is in a unique position to build a commercial, free-to-air TV brand with a mass audience to compete with ITV and deliver Murdoch access to the 45 to 50 per cent of homes that have yet to succumb to pay TV.

The planned analogue switch-off poses some threat to Channel 5, given the apathy shown by people in taking up digital television, but this is the same threat faced by all terrestrial broadcasters.

As programming has improved at Channel 5 audiences and advertisers have been drawn to the emerging brand. At launch in March 1997, the station had just 5 per cent of male viewers aged 16 to 34, a high-spending market advertisers drool over. ITV had 50 per cent.

Now, ITV's penetration of the lads' market has crashed to 33 per cent while Channel 5 has doubled its share to 10 per cent. For adults as a whole, ITV had 61 per cent five years ago, while Channel 5 had just 4 per cent. Now ITV is down to 44 per cent but Channel 5 can boast 11 per cent.

Better quality audiences are being attracted to Channel 5 by better quality programmes. Kevin Lygo has been hired from Channel 4 to oversee arts coverage, with his programmes shown at 7pm, such as last Friday night's 30-minute preview of Tate Modern's Matisse Picasso exhibition.

Money has been pumped into popular documentaries such as *The Most Evil Men in History* and *Why Pilots Eject*, which are getting audiences of 1m to 2m at 8pm. These viewers are then encouraged to stick around at 9pm because Channel 5 has bought the rights to show hit films such as *Independence Day*. The station has stolen *Home & Away*, the Australian soap, from ITV and scheduled it in front of its previously troubled home-made soap, *A Family Affair*, which now pulls 1·1m viewers compared with 400,000 before *Home & Away* arrived.

In sport it has picked off loose assets such as England away games (the Albania fixture last year got 7m viewers), plus a lot of US sports.

"Channel 5 has improved I think to impress advertisers before audiences and I think it's worked," says Andrew Walsh, media analyst at Altium Partners.

Programming budgets have been boosted by advertising revenues which have gone from £83m in its first year to an expected £220m this year plus £7m revenues from various sponsorship deals. All this means that Channel 5 will take 7·5 per cent of total television revenue this year, against 4 per cent at launch.

But will all these impressive numbers mean Rupert Murdoch will make a bid? Any buyer needs a willing seller and RTL, with a 65 per cent stake, is far from certain to want to sell. It may yet consider bidding for Carlton or Granada, or even both, as the bigger prize in British TV.

But most analysts believe RTL will wait for Carlton and Granada to merge before making a move, and with some analysts worried that ITV may be suffering a secular decline in its fortunes, a bid for the companies is far from certain.

A question also remains as to whether RTL would be allowed to own both ITV and Channel 5. It could instead bring BSkyB onto the Channel 5 share register if Hollick is willing to sell some or all of UBM's stake.

The Germans could find partnering BSkyB a more attractive option than selling out altogether while Murdoch could still achieve his aims for BSkyB as a substantial minority holder.

Sunday Express Financial
12 May 2002
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Will Hollick sell his stake in Channel 5?

By **Tim Turner**

LORD HOLLICK'S United Business Media is understood to be ready to sell its 35-per-cent stake in Channel 5 to Rupert Murdoch for £210 million – valuing the TV company at £600 million. Such a move would be likely to precipitate a full sale of the station, with RTL – owner of the remaining 65 per cent stake – effectively forced into a sale.

The dramatic deal would be the first consequence of last week's draft Communications Bill, in which the Government laid out plans to loosen the laws on media ownership. The Bill has sent the entire industry into a spin, with every major player ready to become a predator – or fearing it may be prey.

Among the major legislative changes proposed, which are expected to go on to the statute book next year, the ban on foreign companies owning a single ITV or radio station will be lifted, while Murdoch has been given the go-ahead to make a play for Channel 5 – despite still being barred from taking a stake in a single ITV station.

The Bill also proposes to lift the restrictions on joint ownership of TV and radio stations, and the ban on owning more than one commercial licence. But within hours of the draft bill being released on Tuesday, executives from Lord Hollick's United Business Media were understood to be planning negotiations with Murdoch.

Lord Hollick's group has been affected by falling advertising revenues and over-exposure to the US market.

It is thought Murdoch will try to persuade RTL – Europe's biggest free-to-air broadcaster – that by letting go of its 65-per-cent stake, the company, backed by German media giant Bertelsmann, can have a huge role in bidding for a single ITV operator.

City analysts are valuing Channel 5 at between £500 million and £800 million. Sources suggest Murdoch may be forced into paying RTL around £100 million as a "premium" above any agreed price – by way of an incentive to let go of the station and have extra funds to make a bid for ITV.

Executives at BSkyB are already drawing up detailed plans to integrate the five-year-old broadcaster into the Murdoch empire. But with the Communications Bill not likely to be ratified before next year in Parliament, Murdoch faces competition from other publishers eager to get hold of the company.

Lord Rothermere's Daily Mail & General Trust would be a natural predator. But insiders say the group's near £1 billion of debt means Rothermere's hands are tied – unless he goes for a rights issue to raise cash. Trinity Mirror is also thought to be casting a financial slide-rule over the company. However, the key to any sale is likely to be the speed with which a buyer could get their offer together.

HOLLICK: Ready to kiss stake goodbye

Observer
12 May 2002

SOUNDING OFF

Kathryn Flett R. 6

Why we must stop treating children as children

ACCORDING TO the Broadcasting Standards Commission, television soaps are far 'too violent and salacious', tackling sensational issues such as rape, abortion, domestic violence, murder, prostitution and drug abuse with a bit much in the way of gritty post-watershed verisimilitude.

Citing the trials of Little Mo Slater, beaten up (for a Christmas ratings-winner, natch) by her ever-loving hubbie, Trevor, the commission, in true Nanny Knows Best tradition, wonders if a little light domestic violence before Harry Potter and lights out is necessarily the key to a happy, healthy, well-balanced childhood. And on the face of it, it appears to have a point. When I was still a nipper in single figures, the scariest thing I ever saw on TV – *the horror, the horror* – was that pointy, alien face at the end of the *Star Trek* credits. Of course, I saw much *much* scarier things than this in real life, but that's not really the point: there was, then, a sense that too much 'real life' on TV might be some kind of violation of the unwritten code of childhood.

The problem is that these days we still feel the same nostalgic and idealistic way about the purity and sanctity of childhood (though when childhood was thus escapes me), except that, patently, it's not the 1960s anymore. In just the same way that we can no longer expect, or even hope for, cradle-to-grave healthcare, social-security benefits and job security, so we probably need to acknowledge that living in faster, more furious, deeply complex and considerably scarier times calls for an entirely different approach.

Face it, the proverbial old 'they' (a nanny state, an Auntie Beeb, whoever) can't expect to be charged with the responsibility of guarding our godless morals and guiding us through the modern consumerist minefield, nor should 'they' be expected to protect our offspring from soaking everything up much too fast and far too young.

Bottom line: take responsibility for your own TV. While I wouldn't particularly like to be in the position of having a seven-year-old ask me: 'What's a back-street abortion, Mummy?' (see last week's *EastEnders*), I'd only have myself to blame if a child were watching it in the first place.

And though there is probably never a 'right' time to be discussing prehistorically unenlightened approaches to abortion with a seven-year-old (or, come to that, why Little Mo's husband keeps grabbing her hair and bashing her head on the kitchen table, or how it is that the unlovable teenager Janine is selling her body to pay for her cocaine habit), perhaps having this conversation is infinitely preferable to that same seven-year-old than witnessing the real thing, live and uncut, pre-watershed and right there in their own living-room, happening to people they know.

Kids can cope with the 'right' kind of being scared. And, for the most part, kids know that the scary stuff on TV may force them to squeal and peer through their fingers at the screen, but that it's also make-believe. After all, it's rarely the pointy alien face at the end of the credits that keeps a child awake and scared at night, but the faces of those grown-ups they know and love acting out their own fears and/or insecurities.

Still, whether or not the soaps really are glorying in ratings-grabbing prime-time gore and gloom and breeding generations of vicarious emotional thrill-seekers is a debatable point.

But even if you think that, yes, on balance, they probably are and that it should really stop, I can assure you (if not reassure you) that it won't stop in the foreseeable future.

Accepting this fact will almost certainly be the first successful step towards learning to live with it, not to mention teaching kids not to be scared of what's on-screen. As Kylie once wisely reminded us when we were all considerably younger, better the devil you know, eh?

The Observer (Business)
12 May 2002
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Labour's new watchdog is no solution for the press or for broadcasters, say Observer commentators

For local papers the future is already here

Peter Preston

THE BIG headlines of the week, of course, belonged to Rupert Murdoch. Would Tessa Jowell's draft Communications Bill make him master of the media world? (Answer: Take Five).

But little headlines can matter just as much. What about the *Peterborough Herald & Post* (not to mention the *East Northants Herald & Post* and the *Stamford Herald & Post*)? Small papers; big, big issue. And a tale of two ministries.

While Jowell, at Culture, Media and Sport, was sucking her final pencil over the wonders of 'light touch' media regulation, Melanie Johnson, at Trade and Industry, was blocking Trinity Mirror's sale of the four *Herald & Posts* to the Johnston Press after Competition Commission scrutiny. A £16 million deal involving several more Trinity Mirror titles is duly stalled because it no longer seems to make sense.

Johnson, meanwhile, was going further. She was asking the Director General of Fair Trading to investigate the 'implications of local concentration in the ownership of regional and local titles if consolidation in the industry is to continue'. Was Britain, she inquired, in danger of becoming just a series of carve-ups between increasingly dominant groups?

There's a certain Whitehall pottiness to all of this. Jowell and Patricia Hewitt at the DTI are supposed to be Cabinet colleagues working for change to a common end. One of those changes is a more relaxed and sensible approach to newspaper merger policy, which now dictates that Gannett of the US can become one of Britain's big three newspaper owners (because it's a newcomer, from over there), while existing players such as Trinity Mirror and Johnston Press must plead and fume.

The draft Bill condemns 'outdated' regulation and 'inflexible' policy implementation, and recommends taking many small papers out of the regime entirely.

But this light touch comes with sticky fingers. How can one, weaving between Jowell and Hewitt, propose something better? It's easily done. All you need is a little honesty about what's there now.

In fact, the future Johnson fears is already here. Independent local papers, owned outside the big chains, are becoming rare. Trinity Mirror, Johnston, Associated and Gannett rule the roost (with medium-size players such as the Guardian Media Group far behind). And, of course, it's a *de facto* carve-up.

Local monopoly doesn't merely work: it is the only way. What should the commission make of that? The answers come under two headings: commerce and democracy. If monopoly means advertising rates in an area are being shamelessly raised and milked, that is cause for concern. But the commission's remit doesn't extend to free papers and ad sheets operating alongside paid-for papers. That makes it half blind. The reality is that if a paid-for hikes too far, it leaves itself hugely vulnerable to attack from below. The only way of maintaining a monopoly is to remain rigorously competitive. Milking soon leads to curdling.

And the plurality of voices? Most British local papers don't have strident editorials. They're on the side of Bloggsville against the world. It is their job to sell to their community by serving their community. The influence is in the reporting, not the leaders.

Which brings us far beyond any DTI prognostication and directly to New Orleans, where the American Newspaper Association conference has just answered some awkward questions. How do we battle through the nastiest media depression since the Great Depression? How do we see off TV, radio and the net and find a future?

Initial ANA responses involve mantras about working harder and kicking advertisement departments into life. There is also a more thoughtful way. To quote John Morton of the *American Journalism Review*: 'If you want to see TV stations panic, go to a town where the newspapers are on strike.' Newspapers – overwhelmingly – have the reporters on the ground, the critical mass of news collection. Local broadcasters have never put in the resources. Local websites haven't begun to compete. Existing papers which care about newsgathering and fund it properly possess an enduring edge.

That isn't a steady state. Gannett and the rest have investors to placate. An average 18 per cent profitability when you've been used to 29 per cent doesn't sound great. Sometimes, newsrooms are mindlessly cut to rescue the share price – the shortest-sighted suicide note in history.

Look for reassurance at one of our biggest successes, the *Cumbria News and Star* (circulation up 4.2 per cent last year against an average 3.2 per cent fall among regional evenings) and the weekly *Cumberland News* (posting its eighth successive six-monthly circulation rise).

These are very good papers, close to their community and full of news. They were vital sources of information about foot and mouth. They're intelligent, committed and (because they are still family-owned) not too worried about making the last buck. They show that local evenings needn't die, and that weeklies can be true tribunes of the people.

They don't need Johnson to bail them out, nor a light touch from Jowell. They just want to be left alone to do their excellent thing.