

Channel 4 Response to DCMS Film Policy Review

Introduction

The British film industry makes a substantial economic and cultural contribution to the UK, both domestically and internationally, and Channel 4 firmly supports the Government's ambition for a strong and successful British film industry. It therefore welcomes the opportunity to contribute to the Government's Film Policy Review, and in particular to suggest some ways in which the industry can maximise the opportunities presented by the digital age, as well as how best to respond to some of its challenges.

Channel 4 plays a vital role supporting UK feature film. Together with the BBC and the BFI, Channel 4 is a cornerstone of public service film-making in the UK – investing in many of this country's most defining films and nurturing a generation of distinctive film-making voices. Through its television and online platforms, Channel 4 also plays an important role in bringing wider audiences to films they may not otherwise see.

It is Channel 4's unique model, as a public service broadcaster that is entirely commercially funded, which ensures it is able to provide a home for new talent and distinctive, original ideas, while also retaining its creative and commercial independence. However, it should be acknowledged that this model is dependent on Channel 4's ability to continue to generate revenues in the commercial market place from its investment. Channel 4 would therefore urge the Film Policy Review Panel to ensure that any proposals it makes do not restrict Channel 4's ability to continue re-investing in original British content, including film.

The wider film industry currently faces a number of challenges. For example, there are few funders willing to take the initial risk of supporting independent films, and it is difficult for smaller British films to achieve impact against competition from Hollywood movies. While it is important to note that there are no 'quick-fix' solutions to these broader issues, it would be helpful for the industry to have consensus on how best to respond. In this submission Channel 4 will offer a number of suggestions that it believes would allow the industry to better respond and flourish in a fast-moving world. They include:

- Sustained public support for film development and production
- Open and collaborative BFI
- Widespread investment in skills development
- A flexible approach to rewarding producer success
- Reducing production costs and encouraging experimentation with dynamic new business models
- Promoting digital innovation in production, distribution and consumption.
- Creating a flexible regulatory environment that can adapt to a rapidly changing industry.

Crucially, these measures are focused on promoting and enabling innovation across the industry. Channel 4 believes that this should be the Government's priority – and should continue to be even after the tenure of the Film Policy Panel.

Overview of UK Film Industry

Channel 4 welcomes the Government's recognition of the importance of the UK film industry, and the substantial contribution it makes to the UK's economy as a whole – as well as its potential to drive even further growth. 2009 figures show that the UK is the third largest film market in the world, contributing £3.3bn to UK GDP in 2009 and employing 30,000 people in film and video production.

The sector also has a unique cultural impact. Film has the power to challenge, provoke, move and inspire audiences, engaging people emotionally whilst also informing them about issues they may not otherwise come across. Directors from Mike Leigh to Andrea Arnold have used their films to tell stories about life in Britain that resonate with audiences at home and abroad.

This distinctive film-making culture has enabled the British industry to punch above its weight internationally - as demonstrated most recently by the critical and commercial success of *Slumdog Millionaire* and *The Kings Speech*.

Channel 4 believes that the UK film industry is well-placed to build on this success. It has an internationally acclaimed talent base, world-renowned facilities, a competitive tax incentive system and a strong audience appreciation of cinema. It also has a vibrant production community with expertise both in small-scale projects and large studio movies, and an infrastructure that is agile enough to respond quickly to the opportunities presented by digital media.

However, there are also significant challenges facing the sector. While many of these are historical, such as the challenge of sharing a language with the US, there are also some that are specific to new technologies, such as the threat of piracy and the challenge of monetising new distribution models.

Channel 4

Channel 4 is the UK's only publicly-owned, commercially-funded public service broadcaster, with a remit to be innovative, experimental and distinctive. In addition to the main Channel 4 service, its portfolio includes E4, More4, Film4 and 4Music, as well as an ever-growing range of online activities that includes channel4.com, Channel 4's bespoke video-on-demand service 4oD and standalone digital projects.

Channel 4 is also a significant supporter of British film, and in 2010 investment in and distribution of high-quality feature film was enshrined into Channel 4's statutory remit for the first time.

Through Film4, Channel 4 develops and co-finances film production and has a reputation for working with the most distinctive talent in the UK – from established directors to first-time film-makers.

In addition to its work as an investor in UK feature film, as a broadcaster Channel 4 also has an important role in promoting film to audiences. In particular, the Film4 digital channel is the UK's only dedicated film channel available free-to-air, showing a distinctive mix of British, foreign-language and US cinema.

Audiences clearly value Channel 4's distinctive approach to feature film – with recent audience research showing that viewers see Channel 4 as the leading broadcaster for 'modern independent film'.¹

This reputation has been enabled by Channel 4's unique model: publicly owned but entirely commercially funded. Its sole source of revenue is the income it generates from its commercially successful content – whether television, film or online – which is directly re-invested back into high quality original content, including film. This ensures Channel 4 can deliver its remit, as set out by Parliament, while funding its activities independently in the marketplace.

This model has led to a cross-subsidy approach – in which income from some of Channel 4's activities generates profit to support content that is riskier, culturally driven and less commercially-focused.

Channel 4's role in film production

Through Film4, Channel 4 has played a crucial role in the making of many of the defining British films of the last 30 years – from *My Beautiful Launderette* to *Trainspotting* and *Slumdog Millionaire*.

Its continued investment in high quality feature films has been enabled by Channel 4's cross subsidy model, as outlined above – which has provided Film4 with a guaranteed amount to invest every year, regardless of the commercial success of individual projects. Where its investments have proved commercially successful, this revenue is returned to Channel 4, helping it to continue to support original film. From 2011, Film4 has committed to increase its investment in film production and development to a guaranteed £15m a year over the next five years.

As it is fully funded by Channel 4, Film4 shares its values of funding cutting-edge, innovative British content and developing the very best of British creative talent. It also shares an understanding of Channel 4's audience, ensuring that all projects have a clear end-user in mind and benefit from Channel 4's strong brand identity. By working alongside Channel 4's television and digital commissioners, Film4 is also able to harness the flow of creative ideas between different mediums, encourage innovation and allow talent the freedom to work across different platforms.

Some of Film4's films have achieved significant commercial success – most recently with *The Inbetweeners Movie*, which has become the UK's fastest-grossing live action comedy of all time. However, Channel 4 would note that commercial success is only one of the indicators of success for Film4.

For example, Channel 4's creative impact in film has been recognised with numerous industry awards – including 12 Academy Awards won in the last 5 years and 18 BAFTA Film Awards.

Another key measure of success is Film4's ability to leverage investment from other funders. Film4 is often involved in the early stages of development and production, providing development funding to get projects started and pre-production cash flow to ensure they can progress. This championing of a project helps to bring other investors on

¹ 2010 research from Ipsos MORI found that 33% of people viewed Channel 4 as being the best channel for 'modern independent film' – 23 points ahead of the average for other channels

board; Channel 4 estimates that Film4's early involvement helped to attract total funding worth 16 times its own investment for feature films released in 2010.²

Ultimately, for Channel 4, a successful British film industry is one that enables a continuous stream of home-grown talent in the industry – whether that is writers, producers, directors or actors - who are able to get a break and build careers. As outlined below, Channel 4's aim is to give new entrants the chance to make a name for themselves, work internationally as well as at home, produce compelling work that has a strong cultural resonance, and which in turn can support another generation of emerging talent.

Talent

Channel 4 has a specific remit to nurture talent, and through Film4 has played a critical role in developing a generation of distinctive British voices – whether directors such as Shane Meadows, Andrea Arnold or Chris Morris, writers such as Jack Thorne, Enda Walsh and Polly Stenham or on-screen stars like Michael Fassbender, Sally Hawkins and Andrew Garfield.

Key to this has been a commitment to giving untested new talents their first break – through television pilots and short films. Channel 4 funds dedicated schemes, such as Coming Up and 4Screenwriting, to give opportunities for new directors and writers, and also provides new film-makers with a stepping stone to their first feature through Film4's short film slate. Channel 4 has funded short films from Sam Taylor Wood, Shane Meadows, Martin McDonagh and Paddy Considine – all of whom have gone on to make critically acclaimed features. It also partners with organisations around the country to identify up and coming talent – most recently launching a new £40k initiative with Northern Film and Media, which will support four of the most distinctive writers and directors in the North East in developing a feature film package.

This approach to uncovering talent has been responsible for giving many acclaimed film-makers their first credits. For example, Film4 funded emerging director Andrea Arnold to make a short film, *Wasp*, in 2004, as part of its short films programme. The film subsequently won an Oscar, and Arnold went on to work with other partners on the critically acclaimed British features *Red Road* and *Fish Tank*. Her relationship with Film4 is continuing in 2011 with the Venice Film Festival premiere in September of *Wuthering Heights* – starring actress Kaya Scodelario, who began her career on Channel 4's drama *Skins*.

Channel 4 has also sought to give existing talent the freedom to try new ideas. Channel 4 has historically been a leader in cross-sector collaboration, giving talent opportunities to work across different platforms and sectors. In particular, as a television broadcaster as well as an investor in film, Channel 4 has encouraged movement across these mediums. This has most recently been demonstrated by the success of Channel 4's BAFTA-winning *This Is England '86*, the first television series from Shane Meadows. Similarly, Film4's 2011 slate includes directorial debuts from a number of Channel 4 on-screen stars - such as Richard Ayoade (*Submarine*), Joe Cornish (*Attack the Block*) and Paddy Considine (*Tyrannosaur*), as well as *The Inbetweeners Movie*. In recent years Channel 4 has also supported visual artists, such as Sam Taylor Wood (*Nowhere Boy*) and Steve McQueen (*Hunger*) to make their first ventures into feature film.

This approach extends to more experienced directors. Channel 4 continues to back projects by some of the UK's most original and distinctive film-makers, from Danny Boyle to Mike

² Channel 4 Annual Report and Financial Statements 2010

Leigh and Terrence Davies, encouraging them to experiment with new stories and approaches.

Providing a space where talent can build a long-term career is a priority for Channel 4. Beyond its own investment in new talent, it also provides funding to organisations such as the National Film and Television School and Skillset, who play an important role in building and developing the UK's indigenous skills base.

UK Support for development and production

Channel 4 welcomes the Government's commitment to maintaining levels of funding for British film. The BFI's recent Statistical Yearbook highlighted that 15 of the top 20 independent films of all time at the UK box office received funding either from the Lottery or investment from a broadcaster.³ This demonstrates that this kind of investment is essential for creating the kinds of distinctive projects and talents that the UK is renowned for, and in particular for maintaining a strong independent film culture. Channel 4 therefore believes that sustained public support will be the most important driver of the continued success of the British film industry.

Alongside Film4, BBC Films plays an important role in supporting British film. Channel 4 believes that the continued support of BBC Films is crucial to the wider film industry and the cultural reputation of the UK more generally. As the BBC seeks to make efficiency savings as a result of the recent licence fee settlement, Channel 4 would urge them to ensure that its current level of investment in UK film is protected.

As a commercially funded organisation, Channel 4 recognises the risks of investing in high-quality content, and in particular in feature film. However, it would note that the industry as a whole would benefit from the widest possible range of investors, including broadcasters beyond Channel 4 and the BBC. This would help to create more space for independent film and support a more sustainable indigenous production sector.

The central means of public support for feature films is the distribution of lottery funding and the existing tax credit. The Government has made clear that the UK Tax Relief is not in scope of this review – although Channel 4 would urge them to commit to maintaining the tax credit system in the future. It has brought significant benefits to the industry, helping to grow the volume of British productions while also attracting substantial inward investment into the UK, thereby creating new employment opportunities for British crew.

Channel 4 does, though, believe that there are a few key modifications that could be made to the conditions around the existing tax credit that could make it work more effectively for the industry. For example, in 2008 the UK Film Council, BBC and Film4 made an agreement with independent producers to treat the tax credit as 'producers' equity' wherever possible. While this agreement is still in its early stages, in Film4's experience this has been a positive way of providing producers with a greater share in the success of films. The only occasions on which it has not been able to offer this are instances when third party investors have not agreed to it, and therefore Channel 4 would suggest that it would be helpful if the Government endorsed the principle of treating the tax credit as producers' equity.

With the closure of the UK Film Council, delivery of Lottery support for film development and production will now be the responsibility of the BFI. Channel 4 outlines below its thoughts on the operations of the BFI going forward.

³ BFI Statistical Yearbook 2011

Role of BFI

Film4 worked with the UK Film Council on a range of projects and initiatives, and looks forward to developing a close and collaborative relationship with the BFI. Alongside the BBC and Film4, the BFI will be at the heart of UK investment in film, with each taking a distinct, but complementary, role supporting original British feature film.

Channel 4 recognises that 2011 is a year of transition, as the UK Film Council's functions are transferred to the BFI. However, it would note the necessity for a clear and consistent strategy about the BFI's role across the industry, who it represents, the type of projects it supports, the extent of its creative role and how its funding should be targeted.

Given the finite public funding resources available to the industry, Channel 4 considers that lottery funding should ideally be focussed on the projects which, whilst clearly intended for an audience, would not readily attract commercial funding. It should also be used to nurture a diverse supply of both new and established talent – whether individuals or companies.

Channel 4 would particularly emphasise the importance of a public film body that is open to collaboration and partnership, and whose interests are aligned with the wider industry. For example, in Channel 4's view it would free the BFI considerably if it was empowered to soften the lottery money requirements for its recoupment targets, which could currently cause difficulties for producers or other investors.

The main challenge for the BFI going forward will be to make sure the structure of its funding operations works effectively. It is for the BFI to assess the best way of doing this, but Channel 4 would suggest that, given the range of talent in the UK, the most successful strategy for allocating funding would be a pluralistic approach that acknowledges the varying scale of film projects in the UK. This includes providing greater flexibility over the allocation of development funding, so it can support individual companies with whole slates over a longer period of time, as well as seeding individual projects. Channel 4 would also note the importance of ensuring there is a sufficient range of commissioning taste and expertise informing the allocation of the funding. Channel 4 believes that this approach would be appropriate given the BFI's role as the lead public funder of film, its remit to cater to diverse audiences, and the importance of promoting a plurality of voices.

Finally, Channel 4 believes that the BFI should be given a more formal role in promoting diversity across the industry. The film industry is still under-represented by some groups, such as women, ethnic minorities or socially disadvantaged people. While it is essential that private sector businesses recognise the strong commercial case of promoting diversity within the workforce, Channel 4 also believes that public organisations have an important role in highlighting the issue and urging further action. Channel 4 works across broadcasting, film and digital media to support and nurture diverse companies and talent, and suggests that the BFI be given a similar remit to champion diversity within the film industry.

Skills

Channel 4 believes that it is essential that there is industry wide support and investment in training and skills development. The work of organisations such as the NFTS, Skillset, the London Film School and other initiatives such as Lighthouse and the Media Trust are vital to finding and developing the next generation of British film-makers.

In particular, Channel 4 would highlight the need to provide dedicated support and expertise to the wealth of creative talent outside of London. Ensuring that the industry benefits from a diversity of perspectives and backgrounds, with an infrastructure in place that can identify and encourage fresh voices wherever they come from, is essential.

Channel 4 has worked closely on film projects with many of the existing regional screen agencies, particularly in areas such as Yorkshire and the East Midlands, where there are strong film-making communities. It has also worked with Creative Scotland on films such as *NEDS* and *The Eagle*.

At the time of writing Channel 4 is unable to assess how effectively the new Creative England organisation is continuing the important work of the regional screen agencies, but it would urge the Government to ensure that considerable expertise remains available to support film-making talent across the UK.

Rewarding success

Channel 4 believes that rewarding success is vital. It supports the Government's stated aim of helping to build viable independent UK film companies, and believes that a strong production sector is of benefit to the whole film industry – as well as to UK plc.

As a publisher broadcaster with no in-house production, Channel 4 works closely with its independent production partners across all of its platforms. In addition to substantial investment in talent development across film, television and digital media, it already provides favourable terms for its suppliers to ensure they can recoup a financial return on their projects, while not diminishing Channel 4's own ability to generate revenue.

For example, as previously outlined, for those films which are partly financed by the UK tax credit, Film4 encourages the treatment of the UK tax credit as producer equity.

In addition, since 2009 Film4 has also offered a corridor to the producer, allowing them to share in Film4's recouped revenues. This means that in addition to the fees the producers receive for their work on a film, and the ability to recoup an amount equivalent to the tax credit as producer equity, producers also receive 20% of Film4's returns on a project until Film4 has recouped 50% of its equity investment, and thereafter, producers receive 50% of Film4's recouped revenues as an advance against the producers net profits.

Channel 4 would note that these terms have been enabled by the UK tax credit, and have therefore only been put in place relatively recently. It has therefore not yet been able to fully assess their impact on the production sector – and would be cautious about making significant changes before this impact is seen.

'Locked box' Proposals

It is in the context of its considerable existing support that Channel 4 would express caution over the proposals that recoupment revenues from the 'public financiers' be redirected to the producers who made the successful film, to be retained in a 'locked box' for investment by them in future production and development. Indeed, Channel 4 would be concerned that these proposals could have the unintended consequence of reducing investment in British film.

In particular, Channel 4 would rebut the notion that its recoupment revenues should be considered 'public funding'. Unlike the BFI or the BBC, Channel 4 does not receive or spend

public money. Film4's budget of £15m a year comes directly from the revenue that Channel 4 earns in the commercial marketplace. Furthermore, in contrast to television, where returns are generated from the advertising it can sell around a programme's airtime, Channel 4's major source of revenue for film comes from its ability to recoup its equity investment from international revenues earned by that film. Channel 4 needs to retain the prospect of commercial return, and so it must be recognised that any proposal that wholly removes its ability to generate revenues from its investment will therefore also limit its ability to reinvest in original British content, including film. Such proposals would make it harder to justify Film4's equity involvement or the level of risk it currently takes on when supporting a project in its early stages.

These proposals could also impact on the support Film4 gives to the industry more broadly. In addition to backing projects financially, Channel 4 currently funds Film4's specialist in-house team, who use their wealth of expertise in development, production, finance, legal, business affairs and international marketing to support film-makers throughout the process of development, production and distribution. However, if Film4 was not able to recoup any of its investment in film, it would be harder to maintain this level of resource.

Film4 is only able to offer producers the commercial terms outlined above because as an early investor with a strong brand and a combined slate of films, it can negotiate strong commercial deals with third party investors, to the benefit of both Film4 and the producer. If Film4 no longer had aligned interests with the producer, it could potentially lead to the producer being in a weaker position, with the commercial demands of stronger and more established investors taking precedence. As a result, the producers' recoupment share could end up being marginalised.

The 'locked box' proposals effectively seek to place the responsibility of reinvesting in content with the producers, rather than the funders. However, as a public service broadcaster with a remit to be distinctive and innovative, Channel 4 has a commitment to making films that take risks, showcase new voices and offer audiences something different to mainstream cinema. By redirecting any potential recoupment to independent producers, who do not have this formal remit, there is a concern that revenue from successful films will be re-invested by producers into less risky, more commercially-focused projects from a narrower pool of talent.

Channel 4 believes that recycling recouped revenues, as the 'locked box' proposals suggest, would be insufficient in addressing the broader issues facing the British film industry. It could also have a potentially detrimental impact on the industry, by diverting revenue from organisations that already play a vital role in financing and nurturing UK feature films. Crucially, as a wholly commercially funded organisation, these proposals would disrupt the 'virtuous circle' that enables Channel 4 to generate commercial revenue to reinvest back into British content.

Experimenting with new business models

As described above, it is in Channel 4's interests to have a viable independent production sector, and it works closely with its producing partners to ensure they can share in the success of the films made together. However, it should also be noted that film companies should not be the only beneficiaries of a 'sustainable industry', and that talent – both on-screen and off-screen should also be incentivised.

Channel 4 believes that there needs to be more flexibility when putting together budgets for certain types of film, and more realism about production costs, as a means to ensure that

everyone involved in a production can benefit from its success. If films are made for lower budgets, less investment is required up-front, which means that if the film is successful, any upside can then be used to reward all of those involved (including talent), rather than being used to repay investors.

Film4, together with the UK Film Council, Screen Yorkshire and EM Media, explored the potential of this new model with the Warp X studio. This involved a collection of financiers provisionally green-lighting a slate of low budget films, on the basis that in return for producers, cast and crew taking lower fees up front, gross revenues accruing to the venture would be split from the outset as to 50% to the financiers, 25% to the producer, and 25% to the talent (customarily, revenues are first applied to repayment of the financiers, and then net revenues are shared 50% to producer and 50% to the financiers). The scheme led to the production of 9 films - including *Donkey Punch* and *A Complete History of My Sexual Failures*, *Kill List* and the forthcoming *Tyrannosaur*.

Warp X has proved to be an invaluable learning experience, and Film4 will continue to experiment with these new kinds of business models. Channel 4 believes that there is potential for this kind of experimentation to lead to a dynamic new approach to financing lower budget films.

Distribution and Exhibition

Channel 4's aim is to commission content that will resonate with its audience. However, it believes that the current distribution and exhibition arrangements in the UK provide substantial barriers for independent films, such as those that Film4 invests in, to reach those audiences.

The distribution and marketing of a British film is essential in raising awareness and attracting audiences – and therefore driving its ultimate success. US studios invest heavily in the marketing of their films, and it is difficult for independent British films to compete against them. The UK Film Council recognised this issue, and established the Prints and Advertising Fund (P&A Fund), which provided support for the distribution and marketing strategy of specialised and UK films, enabling them to produce extra prints, increase advertising or enhance media exposure and publicity.

The P&A Fund has been a very positive step in helping independent UK films to achieve impact, and Channel 4 would encourage the BFI to maintain similar support for the marketing and distribution of independent films. Channel 4 does, though, believe that there should be some discussion as to how this support should best be applied, and in particular would welcome a more flexible allocation tailored to the needs of the different films and their ideal distribution models.

Channel 4's role as a broadcaster of film

Bringing audiences to feature films they may not otherwise see is a significant part of Channel 4's role as a public service broadcaster. For example, the main channel showed 50 of the 59 foreign language films shown on terrestrial television in 2010.⁴

British films, in particular, play an important role in establishing a point of difference for Channel 4, and in addition to the television rights for the films it invests in via Film4

⁴ BFI Statistical Yearbook 2011

productions, it also seeks to gain the rights to show other British films, where Channel 4 feels they will resonate with its audience and deliver its remit.

Channel 4 competes for first-run transmission rights of films in the 'free-to-air' broadcast window – which typically lasts five years and begins around 2 years after theatrical release. While the competition for British films, including many independent ones, is extremely fierce in this window, Channel 4 was recently successful in purchasing the television rights to Gareth Edwards' low-budget hit *Monsters*, as well as Banksy's Academy Award nominated *Exit Through The Gift Shop*. Channel 4 also provides a home for the best feature-length documentaries through the *True Stories* strand, which has shown acclaimed films such as *The End of The Line* and *Mugabe And the White African*. In total, Channel 4 showed 96 UK films on the main channel in 2011 and many more across the digital channels More4 and Film4.

The Film4 channel in particular plays a crucial role in Channel 4's film strategy. It is the only dedicated film channel that is available free-to-air in the UK, and is also the only film channel to offer a uniquely British perspective. Every year it has a dedicated British season, showing the best of recent British cinema and bringing new audiences to UK films they may not otherwise see.

To ensure that it is continuing to provide something different to mainstream film channels, since 2008 Film4 has devoted around 40% of all of its output to British, European or other non US-films. In 2010 British films made up 25% of its output.

This figure is reported publicly in the Statement of Media Content Policy contained within Channel 4's Annual Report. This Statement forms an essential part of Channel 4's accountability framework, ensuring that Channel 4 is transparent in reporting its public service output and enabling stakeholders to monitor its performance year on year.

It has been suggested by some parts of the industry that broadcasters should be given a more formal requirement to show British films. Channel 4 already has a duty via its remit to show films, and it is proud of the role it plays in promoting feature film, and British film in particular, to television audiences. However, it does not believe that imposing a more detailed quota would be an effective means of promoting greater audience appreciation of British film. There is already a strong market for the rights to British films that are felt to have audience impact – and therefore Channel 4 believes that the most important factor in driving appreciation of home-grown film will be to develop films that will have clear public appeal.

In addition, as a commercially-funded public service broadcaster it is imperative that Channel 4 retains complete flexibility to focus only on the films that will resonate with its brand and audience, and which can generate advertising revenue that will enable it to reinvest back into original content.

Digital opportunity

Channel 4 believes that the digital age will lead to a step change in all aspects of the film business – from development to production and distribution. In particular, it is significantly broadening the opportunities for new film-makers to make and show their films.

Channel 4 suggests that these opportunities could be maximised if the Government were to play three key roles in promoting digital innovation:

- Supporting organisations that are already pioneering new ways of working with digital media
- Ensuring that targeted public funding is made available to support digital cinema
- Unlocking the barriers to growth that currently restrict further innovation

Channel 4 has led the way amongst media organisations in the UK in embracing the digital age. Channel 4 was the first broadcaster in the UK to make its content available on an on-demand basis with the launch of 4oD in December 2006. 4oD is now available on a range of platforms including Virgin Media, BT Vision, consoles such as the PS3 and most recently on mobile devices via the 4oD app. Channel 4 also invests in a wide range of dedicated online content, including interactive games, exclusive websites and mobile content.

In film, Channel 4 has experimented with cross-platform projects, such as *All Tomorrows Parties*, which included both a feature film and an online archive of the history of the music festival. Channel 4 also hosts a dedicated film website on Film4.com, which features exclusive clips, interviews, reviews and listings, and has launched an on-demand service in partnership with FilmFlex, Film 4oD.

Film4 will continue to pioneer new experiments with the launch of a new digital initiative, Film4.O. This will aim to encourage film-makers to embrace multi-platform opportunities, and will be headed by a dedicated new commissioner charged with commissioning film-makers to make content in the digital space, finding emerging new digital talent and exploring cross-platform marketing opportunities for Channel 4's films.

The UK Film Council, and subsequently the BFI, has also played an important role in promoting digital innovation. In particular, the UK Film Council was instrumental in improving the UK's digital screen infrastructure, through its substantial investment in the Digital Screen Network. Channel 4 believes that digital cinema has significant potential to provide greater audience choice, by making it cheaper for cinemas to offer widespread releases. However, this technology is expensive to purchase upfront, and many cinemas have been deterred as a result. Channel 4 therefore urges the BFI to continue to drive forward investment in this area to ensure that digital cinema is widely accessible.

Digital is also dramatically changing the nature of film consumption, with viewers increasingly able to view what they want, how they want and when they want it.

The online film-on-demand business is now a significant commercial market – with companies such as LoveFilm and Netflix enabling viewers to buy, rent and view new releases and classic films online. LoveFilm currently offers 6000 titles, available to view online via subscription or on-demand, and has approximately 1.7m subscribers. As broadband speeds increase and converged devices allow viewers to view television linked to the internet, take-up of these services is likely to increase further.

In 2010 Channel 4 launched its own online on-demand film rental service with Filmflex, Film4oD. Hosted on the Channel 4 website, the site currently has over 700 films available to view, including the latest Hollywood releases, British classics and cult independent and foreign-language films. The service reflects Channel 4's aim to develop new commercial business models whilst also maintaining its commitment to making independent film accessible.

Channel 4 is also a joint venture partner in the internet TV consortium YouView. The aim of YouView is to provide a subscription-free internet-connected TV service which seamlessly brings digital TV, combined with the last 7 days' catch-up TV, on demand services and

interactive applications, straight to the television set. In time, feature films will be available to buy and rent on YouView through bespoke apps.

Channel 4 welcomes these innovations, as providing audiences with legal means of accessing content online is a key strategy in enabling the industry to combat piracy.

However, further innovation in distribution – both theatrically and online - is currently being inhibited by operators concerned about its impact on traditional release windows. Channel 4 would therefore suggest that the Film Policy Review Panel encourages distributors and exhibitors to operate a greater flexibility to enable bespoke releases suitable for different types of films.

In addition, the Competition Commission has provisionally found that Sky's control of the acquisition and distribution of movie content in the first pay TV window adversely affects competition between pay TV retailers, inflating prices to consumers and limiting innovation. Channel 4 welcomes the Commission's provisional findings and its consultation on proposed remedies.

Intellectual Property and Piracy

As a major investor in the creative economy, Channel 4 relies on a sound intellectual property regime to underpin its activities. It made an active contribution to the recent Hargreaves IP and Growth Review, and welcomed its recommendations for the evolution of the UK's existing IP regime.

In particular Channel 4 supports proposals – such as collective licensing – that will make it easier for broadcasters to clear underlying rights such as music to put into their content.

The Hargreaves Review also recommended that the “the Government should pursue an integrated approach based upon enforcement, education and, crucially, measures to strengthen and grow legitimate markets in copyright and other IP protected fields.”

Channel 4 strongly supports this approach – and believes that a robust response to illegal piracy should be combined with compelling, legal means of making content available, as well as by educating consumers about the important role played by intellectual property in underpinning content creation.

The Government has endorsed all of the recommendations from the Hargreaves Review, and Channel 4 looks forward to working with the Government to implement measures that will improve the UK's IP regime.

Unlawful use of copyright material undermines investment in original content, and therefore it is necessary that there is a legal framework that can protect content creators from illegal copyright infringement. Channel 4 welcomed the initial obligations set out in the Digital Economy Act to address illegal peer to peer file-sharing, and will work with the Government to ensure these proposals are implemented as quickly and effectively as possible.

Preparing for the future

It is clear that there are significant changes taking place in the film industry – and a dynamic array of new companies and business models emerging that are beginning to change the way much of the film industry operates.

While the introduction of the Film Policy Review Panel has provided an important moment to reflect on these issues and consider some potential solutions, Channel 4 would also emphasise the need for a long-term approach to policy-making. In such a fast-moving environment it would not be appropriate for the Panel to impose a set of permanent and detailed new regulatory interventions. Rather, it should be an objective of the Panel to ensure there is an appropriate framework for addressing these issues as they evolve.

Channel 4 would therefore recommend the Government consider establishing an independent, expert advisory panel, similar to the current Film Policy Panel, charged with overseeing the film industry on an on-going basis and ensuring that film policy remains fit for purpose.

An approach to regulation that embraces flexibility and innovation in this way would help to ensure that the UK is able to fully embrace the opportunities presented by digital technology, and can go on producing the kinds of challenging and distinctive films that are the envy of the world.

Ends