BRITISH SCREEN FORUM

FRAME THE DEBATE

CONSULTATION SUBMISSION

To the Department for Business, Energy & Industrial Strategy

Subsidy Control: Designing a New Approach for the UK

FRAME THE DEBATE

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BRITISH SCREEN FORUM

A. INTRODUCTION

About British Screen Forum

This submission is being made by British Screen Forum, a membership organisation through which many of the best informed and most influential people in the UK screen sectors convene to interrogate issues of importance and influence policy and the thinking around policy.

We provide a unique and trusted space for key players from the screen sectors to come together to debate the implications of the evolving landscape and the policy and regulatory environment, and to gain unrivalled insight into emerging themes and innovative technologies.

Members are senior figures drawn from a wide range of businesses and organisations operating in the film, TV, video game and/or online sectors. We aim to cover the whole value chain as well as the full range of means of distribution, so include members who can speak for writers, technicians, independent producers, directors, studio operators, distributors, exhibitors, broadcasters, games publishers, games developers, pay TV platforms and online platforms. It is a unique cross-sectoral mix, with a balance of creative, policy and business specialists. Further details are available on our website[1].

Scope of the response

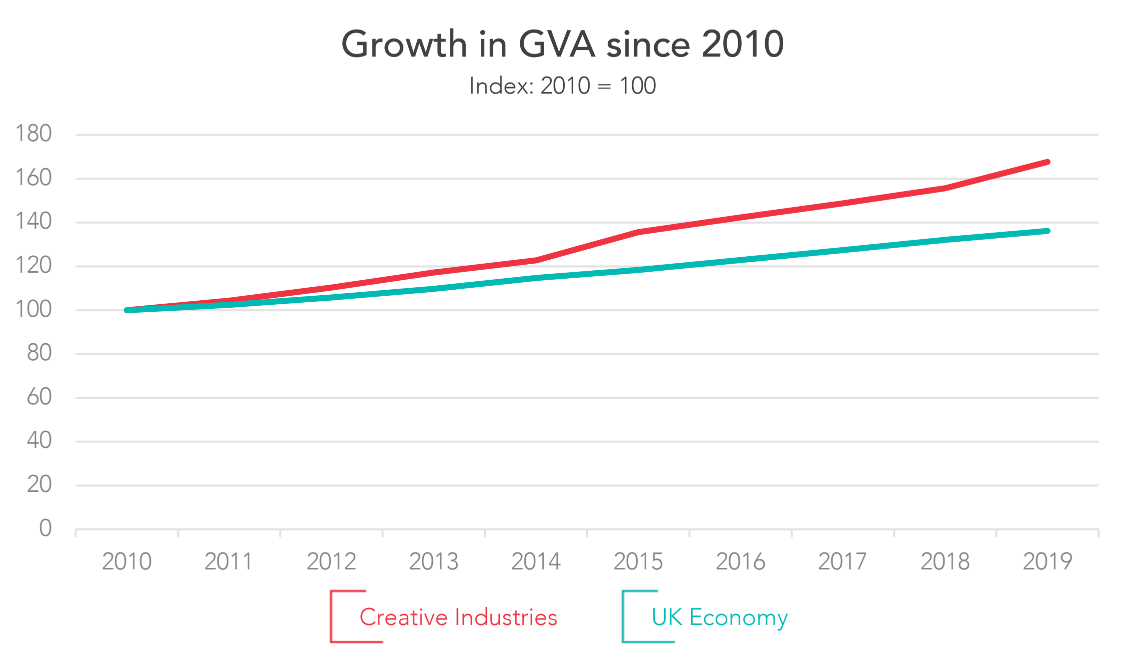
This response has been prepared in consultation with our Members. Whilst it touches on a number of the issues raised, it is primarily concerned with Question 1 (What type of subsidies are beneficial to the UK economy?) and Question 9 (Do you think audio-visual subsidies should be subject to the domestic regime?). In presenting data, we have, in the main, excluded figures from 2020 given the extraordinary impacts of the pandemic and related restrictions on economic activity.

[1] https://britishscreenforum.co.uk/

B. ECONOMIC GROWTH AND THE SCREEN SECTORS

The screen sectors are a key part of the Creative Industries which represent a global economic success story for the UK. The ability of the screen sectors to play such an important part in that success has been founded on, and supported by, a range of highly successful public policy interventions remedying market failures. These vitally important strategic interventions are discussed further in Section C, below.

The Creative Industries contributed £115.9bn to the UK economy in 2019, accounting for 5.9% of UK GVA. The GVA of the Creative Industries increased by 5.6% between 2018 and 2019 and by 43.6% between 2010 and 2019 in real terms[2], significantly outperforming the economy as a whole.



Data source: DCMS

Much of this growth is export led, with exports growing to £37.9bn in 2019[3], more than doubling in value since 2010 and accelerating particularly strongly since 2015.[4] During the most recent four years for which figures are available, Creative Industries exports increased by 78%, growing at nearly twice the rate of services across the economy as a whole over that period.

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[2] Source: DCMS Sectors Economic Estimates 2019 (Provisional): GVA, December 2020
[3] Source: DCMS Sectors Economic Estimates 2019 Trade In Services , page 7
[4] Creative Industries exports were worth £14.7bn in 2010 and had grown by 158% by 2019. Over the same period the total value of services exported by the UK rose by 82% (from £174.1bn to £317.7bn). Source: DCMS Sectors Economic Estimates 2017 Trade In Services, Table 1 and DCMS Sectors Economic Estimates 2019 Trade in Services, Table 10

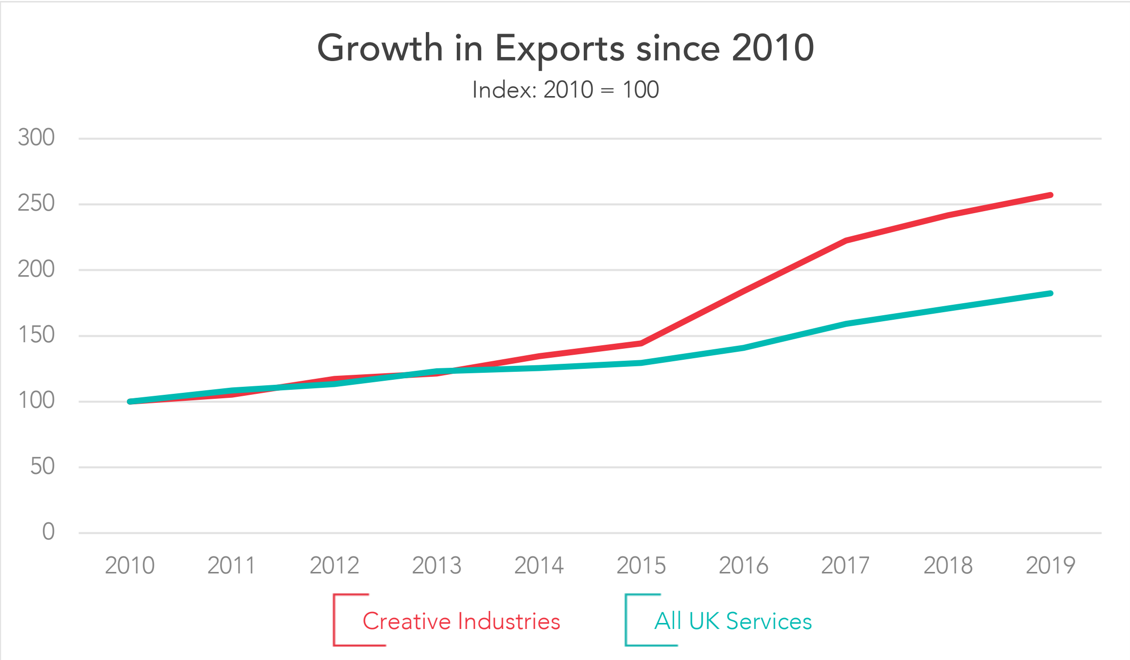
Continuing international demand for screen sector content and services is not in doubt and the UK is well placed to supply it, boasting an exceptional record of success in creating screen content for audiences right around the world:

- The UK is the world's second most successful exporter of TV content after the USA, and therefore punches well above its weight[5] with TV exports alone worth £1.48bn in 2019/20, up 6% year on year and a record high.

- UK films earned a record worldwide gross of $10.3 billion in 2019, a 25% share of the global box office, which also hit a new record of $41.7 billion.[6]

- There are more than 2,200 active games companies in the UK, including the creator of Grand Theft Auto V, the best-selling entertainment product of all time, selling 140 million units worldwide and generating over $6 billion in global revenue[7].

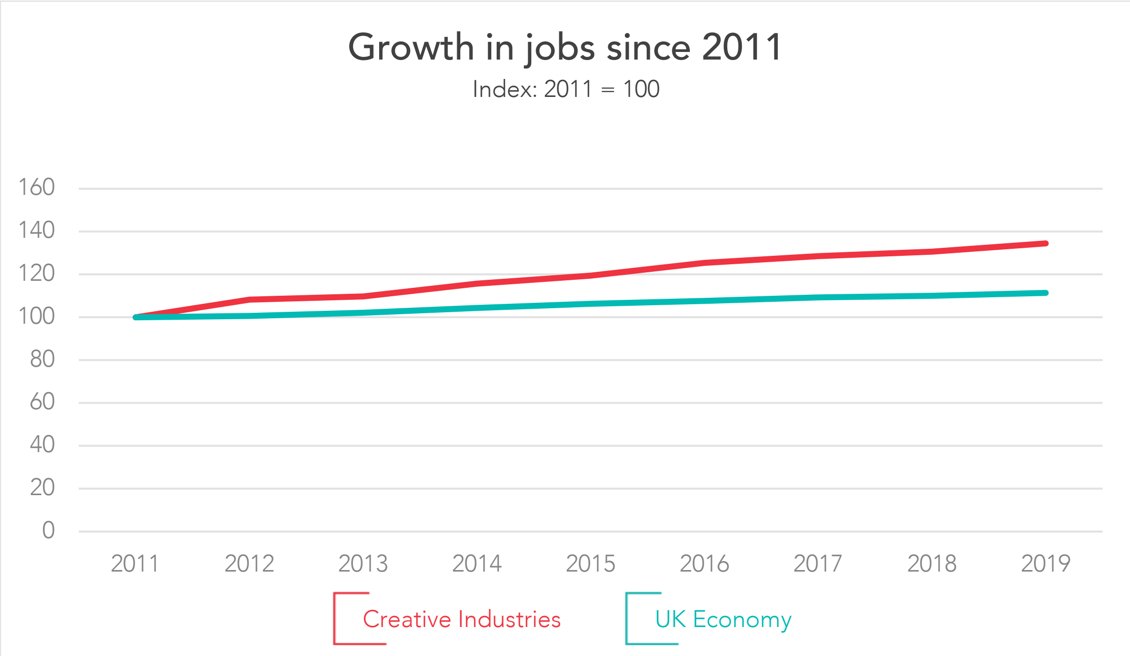
- For UK YouTube creators, 85% of viewership comes from outside of their home country[8].



Data source: DCMS

[5] Source: EURODATA TV / MEDIAMETRIE. Figures relate to the period: 1 March 2015 to 28 February 2016
[6] Source: [BFI – UK Films and British Talent Worldwide](), page 4
[7] Source: Data provided by Ukie
[8] Source: Data provided by Google

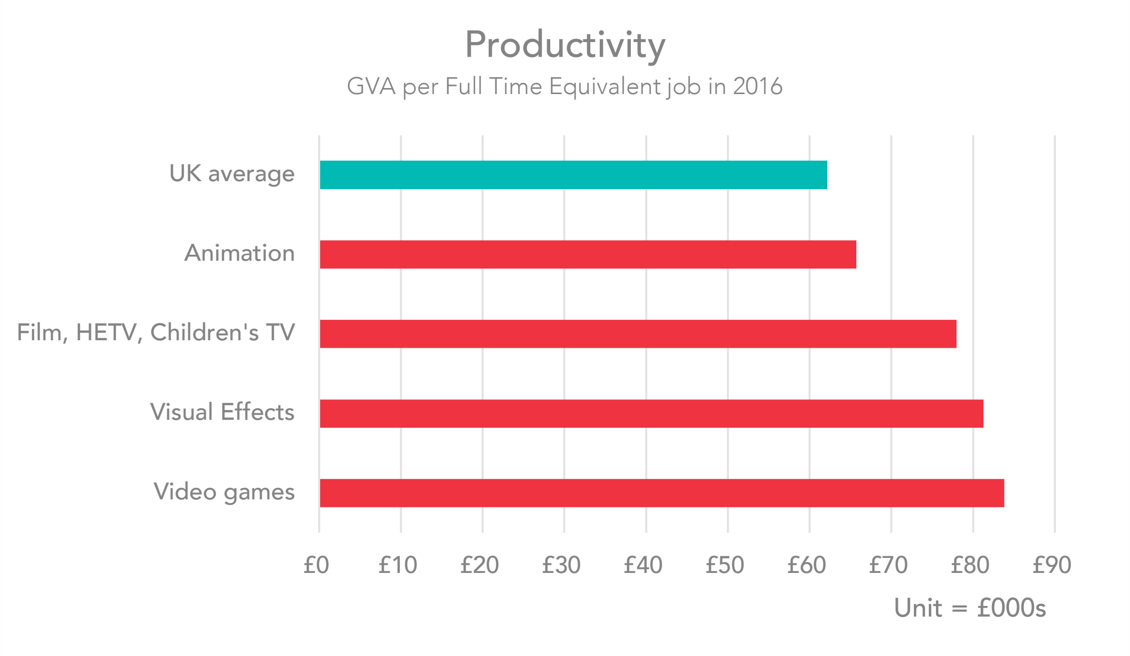
The Creative Industries have also delivered strong jobs growth over recent years, including for UK nationals. They employed 2.1m people in the UK in 2019, up 34.51% since 2011[9] – a growth rate more than three times the rate seen in the economy as a whole. This success has included employing 156,000 more UK nationals in 2019 than in 2015, an increase of 9.5% in the number of UK nationals employed compared with a national growth rate of 3.1% over the same period[10]. It is worth noting that employment in the sector was badly affected by the pandemic and the maintenance of existing support for the sector is the minimum necessary for a return to a strong jobs growth path.



Data source: DCMS

Within the Creative Industries, jobs in the screen sectors have significantly higher than average rates of productivity, as demonstrated in *Screen Business* - an analysis of various constituent parts of the screen sectors by Olsberg•SPI with Nordicity on behalf of the British Film Institute[11], the results of which are illustrated in the table below. Productivity in the video game sector is 35% higher that the UK average, for visual effects productivity is 31% higher than the UK average, and for film, High-End TV and children's TV productivity is 25% high than the UK average.

[9] Creative Industries jobs grew by 34.51% between 2011-19, jobs in the wider economy by 11.36%. Source: DCMS Sectors Economic Estimates Employment 2018 and DCMS Sectors Economic Estimates Employment 2019
[10] Source: DCMS Sectors Economic Estimates Employment 2015 and DCMS Sectors Economic Estimates Employment 2019
[11] Source: 'Screen Business – how screen sector tax reliefs power economic growth across the UK', Olsberg•SPI with Nordicity, October 2018



Data source: Olsberg•SPI / Nordicity

Given the creative nature of the work, these high productivity jobs in the screen sectors are considered to be less vulnerable to technological change than in many other industries.

The jobs and prosperity created by the screen sectors are increasingly spread across the nations and regions: between 2015 and 2018 Creative Industries jobs grew faster than the UK average of 3.5% in Scotland, Wales and Northern Ireland, and in 6 of the 9 regions of England. The strongest jobs growth was in the North East with an increase of 21.1%. The North West and Northern Ireland also saw double digit increases in Creative Industries jobs[12]. Despite this improving picture, the audiovisual sector is still heavily concentrated in London and the South East of England. National and local authorities, including national screen agencies, have a mandate to support their local screen sectors and such public policy measures to address the geographical imbalance are of continuing importance.

The number of jobs provided for BAME people has also increased dramatically in recent years, rising 34.6% from 2015-18 to a total of 288,000. This represents 14.1% of the Creative Industries workforce[13].

There is, however, significant work to be done to ensure that BAME people, women and other demographics protected under equality legislation (e.g. those with a

[12] Source: DCMS Sectors Economic Estimates Employment 2015 and DCMS Sectors Economic Estimates Employment 2019
[13] Ibid

disability or LGBTQ+ people), and people from less advantaged backgrounds are more fairly represented, especially at more senior levels, and the screen sectors are committed to achieving this.

The UK has an exceptional record of success in creating filmed content for audiences at home and around the world. Consequently, it is a major centre of film and TV production activity for both domestic and international content creation companies, attracting 12% ($21bn) of all global screen production expenditure in 2019[14]. The majority of this expenditure, $15.8bn, represents inward investment from outside the UK, as major US studios and streaming companies in particular choose the UK as the place to film major feature films and TV series. This activity has demonstrated an extraordinary ability to bounce back strongly from the effects of the pandemic: the final quarter of 2020 saw the second highest UK production spend of all time.[15] Other parts of the screen sectors, including digital platforms and video games have proved exceptionally resilient during the pandemic, not only in terms of consumer spend (the UK market for video games reached a record £7bn in 2020, an increase of 29.9% from 2019, beating 2018's previous record by more than a billion pounds[16]) but also in terms of business continuity: the majority of video game businesses reporting no risk of closure and only 24% reporting any need for pandemic related government support.[17]

The screen sectors also deliver public value in terms of cultural and social benefits in addition to their economic contribution. By creating stories serving and reflecting the diversity of the UK and the uniqueness of the UK experience, made specifically for UK audiences, they provide socially cohesive and inclusive experiences which are widely shared and help to foster and strengthen common bonds. The values of impartiality, accuracy and trust represented by the main UK news broadcasters are more important than ever and are likely to remain so in the years ahead. UK screen sector exports are also a key driver of soft power abroad – as a House of Lords report on soft power notes:

> *"The UK's creative industries boost the UK's profile everywhere, especially among the global middle class with its discretionary spending power, appetite for media and cultural content, and increasing social influence."* [18]

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[14] Source: Global Screen Production – The Impact of Film and Television Production on Economic Recovery from COVID-19, Olsberg•SPI, June 2020, page 13

[15] Source: BFI, see https://www.bfi.org.uk/news/bfi-official-2020-statistics

[16] Source: Ukie, see https://ukie.org.uk/news/uk-games-industry-valuation-2020

[17] Source: Ukie, see https://ukie.org.uk/resources/playing-on-how-the-uk-games-sector-reacted-to-the-challenges-presented-by-covid-19

[18] Source: "Persuasion and Power in the Modern World", House of Lords Select Committee on Soft Power and the UK's Influence", March 2014

C. STRATEGIC POLICY INTERVENTIONS

Question 1 asks what type of subsidies are beneficial to the UK economy. British Screen Forum submits that those that have underpinned the success of the screen sectors over recent years have been beneficial not only to the UK economy, but also to the cultural and civic life of the country. In addition, screen sector content and services showcase British culture and promote openness and democratic values – vital drivers of soft power overseas.

Taken as a whole, the UK screen sectors are one of the most successful, and fastest growing parts of the economy; but also, one of the most vulnerable, in that the underlying economics of the sector are unusual in a number of ways (described below), and the success of the sector is dependent on a range of supportive policy interventions which have been developed to address a range of market failures. It is worth noting here that interventions on competition and growth policy grounds in relation to the screen sectors will often have complex inter-relationships with cultural policy objectives.

The underlying economics of the screen sectors are unusual in a number of ways. They are hit-based businesses, with particularly high levels of risk and uncertainty from project to project. High-end content has a distinctive and asymmetrical cost profile, with very high fixed costs and low marginal costs, meaning that the bulk of the investment relating to any given project must be borne before any consumer revenues may be earned. This incentivises the development of large companies able to access capital and develop broad portfolios to manage commercial risk and sustain viable business models. With a short life cycle in the primary window, ancillary markets play an essential role in providing secondary revenue streams. Some content has universal appeal, which cuts across cultural and national boundaries, providing further revenue streams from global markets.

Audiovisual companies with large homogenous domestic markets – such as the US and, increasingly, China and India – therefore have significant advantages, as they can exploit economies of scale in their home markets. A key rationale for public intervention is to counterbalance this asymmetry in size between the UK market and those of these global competitors, enabling the UK to exploit the advantages it has in terms of creativity and expertise in the screen sectors. Interventions in audiovisual markets stimulate a virtuous circle between investment, content production/service provision, audience demand, and the revenues that underpin further investment. By ratcheting up the scale at which the industry operates, the UK audiovisual sector is significantly bigger, more vibrant and more competitive than would be expected of an economy of our size, and is able to punch above its weight on the world stage, including in terms of inward investment and exports.

Compared to other countries, the UK's audiovisual sector has a number of distinctive features that contribute to its success: an unusually rich mixture of public and private companies, competition between which helps to grow the overall sector and drive innovation; one of the most vibrant and successful independent TV production sectors in the world; and a central role for inward investment by global media companies, especially the US studios and streamers.

These features did not develop without public intervention. The ability of the UK's screen sectors to deliver economic and cultural value has been significantly enhanced by enlightened government policies which have created and enabled a vibrant sector with the complex ecology described above, helping to create the scale that enables the sector to sustain the skills and capital base to support content creation across a wide range of budgets.

The ecosystem has developed very significantly over recent decades, for example in the television sector through the expanded range of commercial broadcasters facilitated by a range of technological developments and regulatory adjustments. More recently the rise of new video on demand services has contributed to a UK production boom in high-end TV content. Prospects for export led growth are strong, for example, pre-pandemic, the annual growth rate of the UK-based film, TV and TV-related industries was predicted to rise to between 5% and 8% per annum by 2025, largely driven by international revenues[19].

Key interventions have included enlightened policies such as public service broadcasting, PSB quotas for independent and regional productions, and fiscal incentives. They also include the establishment of institutions that support the sector using public funding, such as the British Film Institute and national/regional screen agencies. As a result, competitive tensions see the diverse range of companies operating in the sector pushing each other to new creative heights and collectively creating an industry of sufficient scale to compete successfully in the global market for screen sector content and to be the location of choice for the creation of such content. This delicate balance and institutional infrastructure must not be undermined by the future subsidy control regime. This is especially important at this time of rapid technological change that is continually disrupting consumer behaviour and business models, leading to considerable uncertainty about how audiovisual markets will evolve in the coming years, and creating particular issues for the UK independent film sector, a key incubator of talent for the broader audiovisual sector and an area in which market failure is particularly acute.

To take one example of a highly successful intervention, the Creative Sector Tax Reliefs have delivered returns on investment for each £1 of tax relief of £7.69 (film), £6.10

[19] Source: "The contribution of the UK-based film, TV and TV-related industries to the UK economy, and growth prospects to 2025", Oliver & Ohlbaum , October 2018

(High-End TV), £4.44 (animation), £4.00 (video games) and £2.73 (children's content)[20]. Screen sector production activity is often highly mobile and there is intense international competition to attract it. The challenge is to ensure that the support that has been so successful in addressing market failure remains internationally competitive as other territories enhance their levels of support. The new subsidy control regime must not be a barrier to such efforts.

Alongside these economic factors, market failure justifications for intervention in audiovisual markets also arise due to the positive externalities that result from these services. Alongside their economic contribution, TV (and other kinds of audiovisual content) provide benefits to society in terms of access and inclusion, quality of life, sense of community, educated citizens, cultural understanding and informed democracy (as Ofcom and others have described). Notwithstanding the proliferation of choice in media markets, these externalities remain relevant. Indeed, there are compelling arguments that they are more important than ever. A strong framework to support the provision of public service media is vital to both the economic health of the UK screen sectors and in ensuring that important positive externalities are delivered, and an appropriately designed, principles based subsidy control regime must be consistent with such a framework.

D. THE PROPOSED SUBSIDY CONTROL REGIME

Question 9 asks whether audiovisual subsidies should be subject to the domestic regime. We recognise that this question arises naturally from the fact that the audiovisual sector is excluded from the UK-EU Trade and Cooperation Agreement and welcome the opportunity to comment. In doing so, we note that the impacts of the proposed regime are currently unclear, both in terms of detail and in terms of the interplay with broader approaches to supporting economic growth.

In relation to issues of detail, for example, it is unclear how the inclusion of an additional principle focused on protecting the UK internal market by minimising the distortive effects on competition might affect current and future initiatives to drive screen sector growth in the nations and regions. The ability effectively to develop the talent that exists throughout all parts of the UK being integral to the future health of the sector.

With regard to broader approaches to supporting economic growth, we note that the public policy framework has very recently shifted from that of the Industrial Strategy established in 2017 to that presented to Parliament earlier this month as 'Build Back Better – our plan for growth'. While both frameworks have rightly identified the

[20] Source: Screen Business: how screen sector tax reliefs power economic growth across the UK – Olsberg.SPI & Nordicity for the BFI, 2018

creative industries as a UK success story which public policy should help to flourish, at this stage it is difficult for stakeholders to assess with any certainty how the inter-related approaches to subsidy control and growth support will play out in practice. How the balance is struck may have a significant impact on the relative merits of the audiovisual sector being inside/outside the regime.

Although, on balance, we support audiovisual subsidies being subject to the domestic regime, that support is therefore necessarily conditional.

There are three main areas of concern:

- The regime must remain principles-based. This is an area in which detail is exceptionally important and our support for inclusion in a regime bounded by the principles outlined does not indicate support for any future set of rules – as yet unseen - that might sit beneath those principles.

- The interpretation of those principles must not develop in a way that threatens existing support for the sector. One option would be to declare existing screen sector interventions – which have already been through a review process - compliant from the outset of the new regime in order to avoid unnecessary legal uncertainty. As noted previously, the current screen sector success story is underpinned by a range of enlightened public policy interventions which support a uniquely mixed screen sector ecology. However, we note that concepts such as 'market failure' and 'equity concerns' can be interpreted in a variety of ways. We would have very serious concerns about any move to a more restrictive interpretation which could negatively impact on the room for support for the provision of public service media, the new Global Screen Fund or the Creative Tax Credits. This is particularly important given, for example, the need to maximise beneficial externalities such as trusted news provision and the sense of community generated through sharing stories about ourselves, and also given the enhanced support being provided to screen sectors in competitor territories – including inside the EU - in response to the impact of the pandemic.

- The introduction of any sector or category-specific provisions that may affect the screen sectors, which we understand is not the current intention for a principles based regime, should not take place without meaningful consultation with those sectors and should not have a negative impact on them. In making this point, we recognise that the screen sectors, and sub-sectors within them, do have particular characteristics that differentiate them from other sectors or sub-sectors in certain ways. We also reiterate the observation that the success of the screen sectors as a whole is a function of a uniquely mixed and delicately balanced ecology supported by a range of well-evidenced public policy

- interventions developed over a number of years in close cooperation with the industry.

Subject to these caveats, British Screen Forum supports audiovisual subsidies being included in the proposed subsidy control regime.

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