

17 February 2012

Alex Towers
BBC Trust
180 Great Portland Street
London W1W 5QZ

STUART MCINTOSH
Group Director, Competition

Dear Alex,

BBC Trust Significance Test – Delivering Quality First: HD services

In accordance with the Terms of Reference of 18 January 2012 and the Addition to the Memorandum of Understanding¹ regarding significance tests, this letter sets out Ofcom's views on the potential impact on others ("others" being providers or potential providers of alternative products and services) of the BBC Executive's proposals in relation to high definition (HD) services (the Proposals).

Our views are provided in order to inform the Trust's decision on the significance of the Proposals. All aspects of the Proposals (including any impact on viewers) are being considered by the Trust Unit and it is the Trust's decision as to whether the Proposals are considered significant for the purposes of Clause 25 of the BBC's Framework Agreement.

We understand that the Proposals are to:

- Launch Nations versions of BBC One HD in Scotland, Wales and Northern Ireland in 2012;
- Close the BBC HD channel; and
- Launch BBC Two HD in 2012.

Analysis conducted by Ofcom

Having reviewed the BBC Executive Proposals and internal information held by Ofcom, we identified some areas where we felt further information would be beneficial. We therefore raised a number of queries with the Trust Unit to clarify our understanding of the Proposals and to assist our review.

In providing our input we have therefore based our analysis on the BBC Executive Proposals, responses to queries we raised through the Trust Unit with the BBC Executive², and internal information and data currently held by Ofcom³. Given the scope of Ofcom's role in the significance test process and the limited time available we confirm that we have not commissioned any additional market research, obtained any new information or data specifically for this work, or consulted with stakeholders.

¹ http://www.bbc.co.uk/bbctrust/assets/files/pdf/about/mou_addition_dec2011.pdf

² Specifically, information relating to: viewer information, existing research on HD take-up and hardware, and BBC Two HD content.

³ Specifically, internal research on HD services (including the use of Broadcaster's Audience Research Board (BARB) data held internally by Ofcom), and the Ofcom Communications Market Report 2011.

We have considered the proposed changes against the counterfactual set out in the BBC Executive Proposals; that is, where no alternative options for HD would be pursued and the BBC's HD offering would remain the same as it is today⁴.

By reference to the Ofcom Market Impact Assessment (MIA) on the launch of BBC HD services in 2007⁵, the BBC Executive identified the following 'markets' (or providers or potential providers of alternative products and services) which it viewed could be affected⁶:

- TV platform services and network services;
- Broadcast services on various delivery platforms;
- Provision of content – including programme-making and rights exploitation;
- Hardware and software, including television reception equipment, recording and playback equipment, and physical media; and
- On demand services.

In addition the BBC Executive also examined the impact on DVD sales and rentals.

While a comprehensive consideration is beyond the scope of this exercise, we have sought to identify the key potential 'markets' which could be affected by the Proposals. We agree with the BBC Executive's Proposals that in principle it is possible that an effect may be felt in each of the above areas. However, given market developments over the last four to five years, we consider it appropriate to focus on two specific issues: the impact on other HD channels or standard definition (SD) channels with similar content (that is broadcast services on various delivery platforms) and, to a lesser degree, sales and rental of Blu-ray discs (rather than DVDs, given the difference in quality). We consider that the potential impact in other areas identified above is likely to be much less pronounced and address these only in general terms.

We have considered each of the two components of the Proposals in turn: BBC One HD in the Nations and replacing BBC HD with BBC Two HD.

Potential impacts relating to the BBC One HD Nations Proposals

Given that BBC One HD is currently broadcast across the UK⁷, the main effect of the Proposals will be to provide Nations HD programming in Scotland, Wales and Northern Ireland on BBC One (viewers in England remain unaffected by the Proposals).

We would note that, from a consumer perspective, the Proposals are likely to be viewed more as a change to an existing service rather than a 'new service', given BBC One HD is already available. The

⁴ In these circumstances the BBC Executive acknowledges that it would need to find savings from elsewhere (information provided by the BBC Executive on their proposals).

⁵ <http://stakeholders.ofcom.org.uk/market-data-research/tv-research/bbc-mias/bbc-hdtv/>

⁶ Information provided by the BBC Executive on their proposals.

⁷ Regional and National content is not typically shown (<http://www.bbc.co.uk/bbccone/hd/faq/>).

BBC Executive Proposals state that the additional Nations HD programming would be 310-404 hours⁸ per year, which would be equivalent to approximately six to eight hours per week (or 4-5%⁹ of total broadcast hours per week).

We consider that there would be minimal impact on other HD services with Nations programming. Firstly, there are only a small number of such services, with availability depending on platform and location. Secondly, we would expect switching to the new HD service to be primarily from BBC One SD, rather than from other channels¹⁰, and hence any effect is likely to be mainly felt by BBC One SD.

In relation to the other 'markets' highlighted above, we have not seen any evidence to suggest that these Proposals would have a market reducing or expanding effect. The number of HD channels has grown significantly over the last few years and the HD 'market' is no longer in 'launch phase' (which was a major consideration at the time of Ofcom's BBC HD services MIA in 2007). While each new simulcast HD service of an existing SD service launched may encourage take-up at the margin, given the number of HD services now available¹¹, any growth effects attributable to the launch of any specific service are likely to be minimal and may be difficult to identify.

Therefore we have found no evidence to suggest that the launch of the BBC One HD Nations service would have a substantial impact on other services.

Potential impacts relating to replacing BBC HD with BBC Two HD

We have considered these Proposals primarily from the perspective of replacing BBC HD by BBC Two HD, observing that the majority of the existing BBC HD schedule is BBC Two-originated content (some of which is simulcast). In 2007, the launch of BBC HD was much more of a market-leading proposition. In contrast, we note that BBC Two is now the only analogue terrestrial channel that has no HD channel presence on any platform.

We have considered the potential impact of these Proposals on: HD and SD services with similar content, Blu-ray discs, and other potentially affected products or services identified in the BBC Executive's Proposals.

HD and SD services with similar content. As discussed above, HD services are now well established and as a result, depending on the type of HD channel being launched, new HD services may be less likely to have an effect on the overall HD 'market' than was the case four or five years ago.

⁸ Based on 2011 figures and dependent on the Nation in question, (information provided by the BBC Executive on their proposals).

⁹ This is assuming broadcasts are 24 hours per day seven days per week.

¹⁰ As highlighted in information provided by the BBC Executive on their proposals.

¹¹ There are over 60 HD services available on Sky, approximately 40 on Virgin Media, five on Freesat and four on Freeview (Ofcom internal research, January 2012).

In its Proposals, the BBC Executive highlighted that premium content HD channels (sports and movies channels)¹² could be impacted by the Proposals to launch BBC Two HD. We consider, however, that it would be more likely to impact SD or HD channels with similar content to BBC Two HD. Nevertheless, given that the content on the new BBC Two HD channel would be available on BBC Two SD and that 55%¹³ of BBC Two content is already available on BBC HD, it seems unlikely that any impacts would be substantial in nature.

Blu-ray discs. We have considered the potential effects of the Proposals on sales and rental of Blu-ray discs (and DVDs). We consider that if any effects were felt at all, they are likely to be negligible, given the marginal change to the availability of HD content overall, not least noting that 55% of the BBC Two schedule is currently available on the BBC HD channel.

Other potentially affected products or services. We note that the longer broadcast hours of BBC Two HD compared to the existing BBC HD service may, in principle, support an argument for a market growth effect; that is the demand for HD receivers (particularly free-to-air receivers), HD TVs or On Demand (OD) services could rise. However, in light of the marginal increase in overall HD hours broadcast (particularly for multi-channel homes), and the significant growth in take-up of these services already, we have seen no evidence to suggest that there would be much of a growth effect attributable to the Proposals.

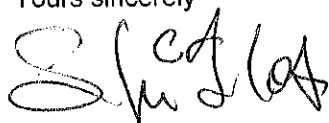
Conclusion

We have not seen any evidence to suggest that these Proposals should give rise to a material impact on providers or potential providers of alternative products and services.

While in principle there may be the potential for other HD channels offering a specific HD Nations service to be affected, we consider the impact of the BBC One HD Nations service to be minimal.

We consider that replacing BBC HD by a simulcast BBC Two HD service (noting that 55% of the BBC Two schedule is currently available on the existing BBC HD channel) is very unlikely to give rise to any material effects. In contrast to 2007 when BBC HD was launched, HD services are now well-established and, as the only remaining analogue terrestrial channel not available in HD, we do not see a compelling reason to require further assessment of the Proposals prior to launch of BBC Two HD from an "impact on others" perspective.

Yours sincerely



Stuart McIntosh

¹² Information provided by the BBC Executive on their proposals.

¹³ Ibid.