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Blazing a trail

The UK communications sector in a global economy

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With a challenging economic outlook ahead, the health of the UK communications sector must become a particular focus for government as it looks to grow and rebalance the economy. The sector is already a key source of comparative advantage for the UK, but more must be done if it is to continue to thrive in the face of increasing global competition. The sector itself must rise to the challenge, but the government has a powerful opportunity – through a Communications Bill and wider policy – to ensure it is in the best possible position to do so.

The communications sector¹ accounts for over £50bn of total UK GVA, and is predicted to see export growth of at least 8.7% a year between 2010 and 2020.² Individual industries are world leaders: we are the largest producer of television and radio content in Europe,³ UK internet advertising has demonstrated the largest and steadiest growth of all European countries since 2004,⁴ and the UK is the largest games market in Europe, the Middle East and Africa.⁵ With such global potential, it is not surprising that recent studies have shown the direct link between a dynamic communications sector and a strong economy.⁶

But other major economies are making big investments to compete, and the current performance of the communications sector cannot be taken for granted. The government has a major opportunity to shape the competitive landscape with the forthcoming Communications Bill.

The Communications Act introduced in 2003 provided a strong basis for an emerging sector in the UK, and focused on enabling a cohesive UK communications sector. The focus should now shift to maximising its growth potential on the global stage. Where the driver in 2003 was internal structures, it must now be on enabling external reach, on becoming *the* global trailblazer in the communications sector.

A trailblazing communications sector should be home to the most dynamic start-up culture in the world, with the UK receiving and offering more investment opportunity than its competitors. It should result in the sector growing more rapidly than it is currently, both domestically and through export activity. If this vision is to be achieved, government must actively tackle the obstacles facing industry. While a revised Communications Act alone cannot facilitate radical change, it will play an important part in establishing a solid framework, enabling the sector to compete internationally. This report sets out the conditions that businesses will need in order to maximise the growth potential of the sector. These include:

- A regulatory environment that promotes innovation and competition
- A policy framework that encourages investment in content and infrastructure
- A world-class export strategy.

A regulatory environment that promotes innovation and competition

The regulatory environment is central to the growth potential of the communications sector, ensuring that innovation is not threatened by bureaucratic obstacles. A consistent, light-touch approach to regulation should be a government priority, to drive confidence in the sector. The regulatory framework should: encourage investment, enable UK-based companies to grow, open up market access, and drive competition in the sector.

Government should not automatically reach for the regulatory lever

Regulation can help, as well as hinder, business prospects in this sector. It is clear that aspects of the 2003 Communications Act were crucial to the current success of UK content, particularly the provisions made for independent content providers in Clause 285, which gave independents greater control over their own content.⁷

The dynamic culture of the communications sector means that new regulation must be approached with caution. This is particularly the case as the twin sources of regulation for the sector – in Whitehall and in Brussels – can undermine a coherent approach. In a sector reliant on innovation, traditional regulatory practices can quickly become out-dated and restrictive to progress. These key principles should be followed before regulation is introduced.

Regulation should be:

Implemented only after other models have been considered

The sector must not be shackled to outmoded statutory regulation. Government must recognise the importance and appropriateness of flexible models of regulation, which have a far better chance of remaining relevant given the pace of an evolving market.

This can be most clearly illustrated through the rapid ascent of websites such as Facebook and Twitter. In 2003, for example, it was unthinkable that social networking would revolutionise the internet and profoundly change the online consumer experience. This technological advance has thrown up new and – crucially – unpredictable regulatory challenges around issues as diverse as data privacy, child protection and the role of competition. A longer-term view of how existing regulation might impact the continual evolution of the digital environment is therefore imperative, and the input of industry vital. Different models are appropriate for different situations, but the government should explore the use of the following before resorting to statute:

Co-regulation: Co-regulatory bodies encourage industry input, while ensuring interplay between industry stakeholders and independent consultation. This has worked particularly well in the case of the advertising industry, with the Advertising Standards Authority considered to be a world-leader in terms of responsive, effective regulatory models.

ATVOD (the independent co-regulator for the editorial content of UK video on demand services)

ATVOD was designated by Ofcom as the editorial regulator of VOD services under the AVMS Directive. ATVOD's initial flat-fee funding structure caused difficulty for some SMEs. It is crucial that this body and other potential co-regulators do not inadvertently stifle innovation in communication services by creating obstacles for start-up businesses.

Self-regulation: When properly implemented, self-regulation allows industry to respond quickly and decisively to sensitive events. The Pan-European Game Information (PEGI) system, used throughout most of Europe and supported by major console manufacturers, including Sony, Microsoft and Nintendo, works with European counterparts to establish best practice for the gaming industry.

The Pan-European Game Information (PEGI)

PEGI was established to help parents make informed decisions about the appropriateness of computer games. It was launched in 2003 and replaced a number of national age rating systems with a single system. As a reaction to questions about child safety, PEGI has ensured that games consoles come with parental control features, allowing parents to determine access to content. It runs on the principle of ‘active choice’, giving parents the option to set up controls as soon as the console itself is set up. Already implemented in-line with the recommendations of the June 2011 Bailey review, this feature clearly illustrates the speed and efficiency with which self-regulatory bodies can proceed in response to serious issues.

Community regulation: Feeding into the concept of consumer empowerment, whereby the online community regulates itself through highlighting offensive content. Google have been particularly innovative in developing their own model of community regulation,⁸ allowing the consumer to play a role in clarifying acceptable behaviour on the internet.

Supportive of convergence

As consumers find information increasingly transferable and accessible between digital devices and national borders, a modern approach to convergence is vital. While the market moves at a pace dictated by consumers, cumbersome regulations can lead to anomalies across technologies and obstacles to new business models. Government must ensure barriers to entry are minimised and that regulation of technology – be it through television, mobile phone or other platforms – is consistent across the board.

Targeted at a clear outcome

It is crucial that regulation has a clear purpose, and outdated restrictions that have outlived their use should be addressed and removed if we are to compete on a global scale. **Given that regulation in the digital environment can rise and fall in importance rapidly where the government introduces new regulation, sunset clauses should be introduced (as far as possible).** This would prevent particularly ‘of the day’ regulations from remaining in place long-term, stifling competition and the development of new business models.

Work with the grain of consumer demand

Digital engagement has grown significantly in recent years, with consumer appetite for access to information and content through digital platforms increasing markedly. E-sales in September 2011 were up 15%⁹ on the previous year in an otherwise stagnant retail market. In the music sector this growth is even more pronounced, with album downloads in the third quarter of 2011 up by 24.2% on the prior year while CD album sales

Public Service Broadcasters (PSB) requirements

The obligations imposed on Public Service Broadcasters have played an important role in shaping the UK’s broadcast market, delivering desired social outcomes and setting the framework for much domestic content production. But rules to achieve set outcomes on television in the past risk being left behind as technology moves on. For example, it may be appropriate in this context to examine whether statutory requirements relating to news broadcasts – pertaining to an era of limited spectrum and choice – are still relevant in a world with increasing sources of access to news content. Equally, government should also examine whether current regulation best incentivises content investment. The UK content sector has thrived due to competition for quality between PSBs and commercial broadcasters. PSBs are responsible for 90% of UK content investment and are forecast to deliver the large majority of investment in future – but investment by commercial broadcasters is increasing significantly. As industry funding shifts, regulation must target maximising content investment. Clause 285 of the 2003 Act can be considered a success, but the green paper will provide an opportunity for government to examine whether it could be refreshed to stimulate new sectors and business models. **The green paper must include a thorough review of the obligations placed on the PSBs, to ensure that they remain relevant in a convergent world.**

fell by 15%¹⁰. One third of adults in the UK use Facebook every day, and one-in-five log on more than five times a day¹¹. 3,600 people a month use NHS Direct’s symptom checker app, rather than visit their GP. In June 2011, The Guardian’s website received 13.5 million unique users. This engagement with online content is coming from an ever increasing number of sources. Smartphones now make up 48% of total UK mobile phone sales in Q1 2011¹², and 7.6% of the population own a tablet¹³.

The obvious enthusiasm for digital products has seen companies reacting quickly to the needs of consumers, or risk losing out. The speed and ease with which consumers can move their custom elsewhere in the digital environment – witness the rapid demise of MySpace – ensures that they have to remain highly responsive, and it is this that drives the innovation in the sector.

But it is undeniable that the internet can also be a risky environment. People are wont to roam freely across the barrier-free landscape, but do so without ensuring that they’re properly protected. Far too many people casually use the same password across online accounts, or do not log-off after banking online. While younger generations have grown up with the internet at their fingertips, a recent report by Demos revealed that only 16% of parents consider themselves advanced internet users.¹⁴

Google and the Citizens Advice Bureau: 'Good to Know' campaign¹⁵

In partnership with the Citizens Advice Bureau, Google has launched a new campaign to increase awareness of internet threats. The 'Good to Know' campaign covers five subject areas:

- Choosing a strong password
- Recognising phishing emails
- Understanding secure websites
- Signing out of online accounts
- Using two factor authentication for services such as email.

Increased government support for such schemes can have a real impact on how consumers engage with digital issues, educating and informing the wider public without resorting to regulatory instruments.

The government has a role to play in ensuring that consumers are using devices appropriately and safely. Technology and content often progress at a pace that regulators are unable to keep up with, and resources may often be more effectively deployed by helping consumers to navigate the digital landscape safely and successfully.

Competition should drive government policy

While consistent regulation will do much to encourage digital innovation, it is also crucial that competition is at the centre of government policy. The communications sector evolves constantly, defying static market definitions. By promoting an effective competition regime government can stimulate innovation – by allowing for level of regulation to fall¹⁶ – and deliver for consumers. The government must therefore ensure competition strikes a balance between maintaining price competitiveness for users, while enabling market participants to build economies of scale.

There is a role for government in resolving longstanding issues between differing elements of the communications sector

While the government has recently indicated that it will regulate if agreement is not forthcoming,¹⁷ longstanding issues between the Internet Service Providers and content providers remain. It is crucial for long-term growth that both of these strands of the communications sector are able to derive profitable business models from working together. This will become even more necessary as convergence causes content providers to become ever more reliant on digital platforms for distribution.¹⁸

The government should continue to reach for resolution that will be acceptable to all concerned. Progress on this same issue in the United States demonstrates how incentivisation has a crucial role to play in this process.

To ensure there is adequate process in place to address industry issues as they arise, the government should create a (non-binding) advisory panel, with representatives from industries within the communications sector meeting regularly to generate progress on contentious issues.

Government must establish a clear definition of sufficient plurality to support investment in the media

The UK has one of the world's most competitive media markets. This environment sharpens business models so that the UK punches well above its weight in global terms. The shrinking of distances brought about by the internet has meant that websites such as the Daily Mail and the Guardian are world leaders¹⁹, while publications such as the Financial Times are read by business leaders across the world.

The issue of the conduct of the media and media plurality has recently been brought into the spotlight, and it is welcome that the government has commissioned Lord Justice Leveson to look into these issues in more detail. But it is crucial that potential investors continue to view the UK as a prime location for investment and growth opportunities.

It is clear that the government should clarify a definition of 'sufficient' plurality, given the rapid change in consumer behaviour and competition. Linked in with this, the government should ensure that new regulatory process (for example, plurality reviews) is rigorously tested and should not harm legitimate investment opportunities.

Traditional market definitions must be challenged

Competition authorities must recognise the re-shaped landscape for the communications sector. This new landscape has two key features: there is now a broader range of routes to market due to the convergence of technologies, and those markets are increasingly international in nature. These factors have also opened up the market to a number of smaller new entrants. Broader-based market analysis therefore must be used to include all new players entering the market as well as the international context of the industry.

The risk of not having a broader analysis of the communications sector is that judgements on market power can lead to the wrong conclusion. Dominance in traditional markets such as CD sales or printed media does not necessarily mean dominance in the digital environment – both need to be taken into account. Traditional approaches to market analysis, based on looking at more static markets, will need to be robustly tested against markets that are subject to disruptive change from new technology.

Competition-led innovation in the print media

The Daily Mail is the UK's second biggest selling daily newspaper, distributing over two million copies a day in September 2011. But it operates in a fiercely competitive environment in which it makes up only around 20% of the market. This has meant that it has had to adopt a combative online strategy in order to achieve the desired scale; rather than adopting a pay-wall – as favoured by the News International publications – it has aggressively chased viewers, luring them with a mix of news and celebrity content, in order to sustain a model that is largely funded by advertising. This mix has proven hugely successful, with the Daily Mail now ranking as the second most visited newspaper site in the world behind the New York Times.²⁰ This success has been driven by a strategy born out of necessity due to the competitive domestic market.

Despite becoming a global leader, though, the Daily Mail does not threaten media plurality in the UK. As set out above, it has around one fifth of the daily newspaper market – although this is slowly growing as its sales decline more slowly than that of the total market. But newspapers themselves account for only a small proportion, with Ofcom research²¹ showing that TV accounts for 73% of people's news consumption, and online and radio content also creating a competitive and multi-sourced environment.

Summary of recommendations:

- Where government introduces new regulation, sunset clauses should be introduced (as far as possible).
- The green paper must include a thorough review of the obligations placed on the PSBs, to ensure that they remain relevant in a convergent world.
- The government should create a (non-binding) advisory panel, with representatives from industries within the communications sector meeting regularly to generate progress on contentious issues.
- The government should clarify a definition of 'sufficient' plurality.

A framework that encourages investment in digital content and infrastructure

Better regulation is imperative to free up the sector but, crucially, businesses operating in this sector must be provided with the appropriate tools with which to drive the UK's communications industries forward. The government has taken positive steps in this direction in its ambition to make the UK the best location in Europe for super-fast broadband by 2015,²² and the steps taken to establish a more robust intellectual property framework for investment in content. But more is required if we are to stimulate the investment needed to get the UK's economy growing sustainably.

Government must look beyond Europe, to ensure that industry has access to globally competitive digital infrastructure

Ernst & Young research²³ has demonstrated the importance of telecommunications and technology infrastructure, revealing that companies consider this infrastructure to be the number one aspect of the UK which they consider to be attractive when considering investing in the UK. For example, the strength of this digital infrastructure is considered to be a more attractive feature of the UK to foreign investors than the stable social environment, education in trade and academia, and even the strength of the financial services sector.

It is therefore essential that industry has confidence that the UK will be a base for the most modern, accessible digital infrastructure – in Europe, but also worldwide so as to continue to attract foreign direct investment.

Government must broaden the scope of its ambitions for broadband, if the UK is to attract inward investment

Accessible, high-quality broadband has a vital role in ensuring the UK remains competitive as a place to invest. The convergence taking place across digital platforms is happening more widely across the economy, as ever larger numbers of 'non-digital' companies use the internet to distribute their goods and services. The benefits are felt most keenly by SMEs, with research showing that better access to broadband services can enable small businesses to access previously impenetrable markets, while reducing costs and improving efficiency.²⁴ The government itself stands to benefit from high-quality broadband directly, with estimates showing that a quarter of all interactions with the state could be moved online with savings to the exchequer of £1bn a year.²⁵

The importance of investment in broadband has been recognised by government in its ambition to make the UK the best location in Europe for super-fast broadband by 2015, a welcome initiative that will have a positive impact on the UK's ability to attract inward investment. There has already been significant progress made, and the percentage of UK households with broadband access currently stands at 71%, compared to an EU average of 56%.²⁶ An initial investment of £530m (as well as an

additional £100m announced in the autumn statement to create up to ten 'super-connected' cities) is being more than matched by private sector investment, aiming to provide fast and reliable broadband access across the UK.

It is crucial that government is more ambitious in the long term. If the UK is to host a genuinely world-beating communications sector, we must look beyond Europe and towards digital infrastructure hubs such as South Korea, which has ensured a ten-fold expansion of international bandwidth since 2007 through its prioritisation of investment in digital infrastructure. While recently published research puts the UK's ICT policy inside the global top ten, we are ninth – behind leaders including Singapore, South Korea, as well as Denmark, Sweden and Australia.²⁷ There is significant scope for improvement.

The government should consider a new, longer-term aspiration to have the best broadband economy in the world. Speed is a very important factor, but there are other indicators that can be used to give a truer picture of the vitality of the digital economy – and which allow for comparison against countries such as Singapore which, for geographical reasons, may always be able to maintain an advantage on this measure. The new benchmark could be made up of a basket of measures, including:

- Broadband speed
- Broadband access and take-up
- Private sector investment
- Digital exports
- Digital literacy
- e-commerce
- Company start-up rates in the sector

Government must clarify the role of public investment

Further private investment could be stimulated if Government were to provide greater clarity as to where it sees its own role in future public investment. This is particularly necessary to facilitate the following ventures:

- The creation of digital enterprise hubs (in line with broader industrial policy), to stimulate regional and national growth
- The roll-out of accessible, good quality broadband to non-commercial areas, to ensure that both businesses and consumers have access to digital platforms
- The development of experimental '80-100Mb cities', to find out how access to super-fast broadband can impact the local economy

Private sector investment: BT's plans for broadband

BT announced in October 2011 that two thirds of UK premises will have access to fibre broadband by the end of 2014, one year ahead of its original target of 2015. To help achieve this, BT said it would recruit a further 520 engineers to assist with the deployment, most of whom will be ex-armed forces. The company is bringing forward approximately £300m of investment over the next few years to fund the accelerated roll-out. These funds form part of its total investment of £2.5bn in commercial fibre broadband. The widespread availability of super-fast broadband is expected to help stimulate the UK economy and drive regional growth.

Government must resolve existing spectrum issues

Inextricably linked to providing high quality broadband across the UK in the long-term is the necessity to resolve existing spectrum issues. The efficient allocation of spectrum enables faster download rates for mobile services, benefitting both business and consumers. However, more can be done to improve this resource in the following areas:

Effective management of spectrum remains critical

Effective management of spectrum is more critical than ever for the full development of the digital economy.²⁸ Since the last Communications Act was framed, the demands on wireless networks and the technologies available to meet them have leapt far ahead of spectrum policy. The new communications framework should recognise the need for greater nimbleness in managing spectrum and underpin Ofcom's powers to authorise database-enabled access to spectrum.

The forthcoming 4G spectrum auction must not be subject to further delays

It is crucial that the forthcoming (delayed) 4G auction proceeds in the second half of 2012, in line with other countries – many of whom have already held their own 4G spectrum auctions. While it is of course imperative that competition is preserved as the design of the auction is considered, further delays should be avoided. This is particularly relevant to the UK's ability to offer the fastest broadband possible, benefitting both businesses and consumers; high data rates will be available, and at a speed up to ten times faster than 3G.

A fully accessible 3G service should be an immediate government priority

While the benefits of 4G are clear, the importance of ensuring that a reliable 3G service is available across the country should not be forgotten. A recent OFCOM report revealed that approximately 7.7million UK premises do not have a choice of all five 3G mobile networks.²⁹

Utilising white spaces

Increased take-up of mobile access to the internet is responsible for much of pressure which now falls on network capacity.

In light of this, the utilisation of so-called 'white spaces' – containing substantial amounts of unused spectrum capacity – has taken on particular relevance in recent months, as spectrum issues become more pronounced.

An innovative new project has been recently launched in Cambridge by a consortium of companies, to mount the largest trial of wireless networking in the TV white spaces in the world. Including Arqiva, the BBC, BSkyB, BT, Cambridge Consultants, Microsoft, Neul, Nokia, Samsung, Spectrum Bridge and TTP – the group will explore how white spaces can be used to resolve existing spectrum issues, such as filling broadband access gaps and enabling better access to local content. A network of multiple white space access points will be deployed across the city and in rural areas, demonstrating the potential for this technology.

To this end, the government's announcement in October of an additional £150m to improve mobile network services is welcome.

To remain globally competitive it is first necessary to ensure that our 3G service is robust and accessible, particularly in regions of the UK where a good broadband connection is still patchy at best.

Government should prioritise a market-led approach to sector growth

In a particularly London-centric sector, successive Governments have committed to the concept of nurturing 'digital hubs' around the country. Clusters are particularly important for the communications sector, with digitally-focused businesses often establishing themselves nearby similar ventures, feeding into each other's development.³⁰ Highlighting this trend, successful digital hubs have already emerged through private sector investment in Sunderland, Soho and Salford Media City. Google's recent announcement of a second London-based office in Old Street will no doubt act as a spur to new and existing businesses in the area.

The government has rightly stated that rather than trying to create new clusters from the ground up, it will nurture burgeoning hubs. In a speech at the conclusion of 2010, the prime minister made this clear in his announcement of policy initiatives to support an East-London Tech City.³¹ The success of government intervention in developing this hub has not yet been actively evaluated, and it would be useful for the government to clarify the impact that government incentives have had on this cluster, so that future intervention can be targeted accurately and effectively.

A robust intellectual property framework is essential for sector growth

A robust intellectual property framework is central to ensuring that companies feel confident to invest in and create their ideas on UK soil, particularly for firms operating in the potential-rich knowledge economy. The creative industries – a large component of the communications sector, and significant content creators – achieved gross value added of 102% between 1997 and 2007, compared with 64% for the national economy as a whole.

In May, the Hargreaves review on intellectual property and growth was published. The government endorsed all nine of Hargreaves' proposals in August 2011, with implementation beginning in September. It is crucial that government reforms to the intellectual property regime support growth in IP-rich businesses and create competitive market access to promote innovation. An effective copyright regime has the ability to incentivise investment, support the ability of firms to export and ultimately to underpin growth in the sector. With this in mind, the government should work with industry to address longstanding concerns about copyright exceptions and patent thickets, while taking a prominent role in international efforts to ensure that IP rights are protected globally.

Aardman: A creative success story

Aardman's success is founded on the creation and retention of ownership of its IP. The fact that Aardman Animations owns Morph, Wallace and Gromit, Shaun The Sheep, Timmy Time – essentially all its iconic brands – has been the bedrock of its longevity and prosperity.

CEO David Sproxtton says:

“IP is of course the lifeblood of the creative industries. When businesses come under pressure it is all too easy for them to cut back on the R&D and resource required to create new IP but it's always a mistake. A robust and well financed IP creation community is essential to the future economic prosperity of the UK.”

Government must deliver a competitive tax framework

Tax competitiveness is as critical for creative businesses as it is for other sectors. Many communications firms are highly mobile due to their intangible output. They face significant pressure to remain price-competitive. Countries such as Canada are actively marketing themselves as attractive locations for some such businesses, particularly in the creative industries, through targeted tax breaks. We welcome the chancellor's announcement to reduce the headline rate of corporation tax to 23% over the next four years as part of the corporation tax roadmap, which will help contribute to greater competitiveness and business certainty. A corporation tax system that promotes start-ups, innovative and high-growth businesses will be important for the future success of the sector.

Summary of recommendations:

- The government should consider a new, longer-term aspiration to have the best broadband economy in the world.
- It is crucial that the forthcoming (delayed) 4G auction proceeds in the second half of 2012, in line with other global technology players.
- To remain globally competitive it is first necessary to ensure that our 3G service is robust and accessible.
- It is crucial that government reforms to the intellectual property regime support growth in IP-rich businesses and create competitive market access to promote innovation.

A world-class export strategy

The communications sector has proved to be key export strength for the UK. The UK is a global leader in terms of digital exports, and second only to the US in terms of international content sales.³² Adele has topped the album charts around the world, Downton Abbey has been exported worldwide, and our advertising industry is a global leader. While this image is certainly a positive one, it is essential that we do not rest on our laurels as competitors continue to innovate. The government should look to ‘maximising’ measures to further boost the competitiveness of UK exports.

Government should take an international lead on data protection

Data plays a vital role in the modern economy. The growing quantity of data – and the ability to process it powered by technological and analytical developments – enables firms to develop new services tailored to their customers’ needs. This is particularly true for countries like the UK, which has one of the most digitally-literate markets in the world. However, if consumers do not feel that their data will be stored and used responsibly – and that they have appropriate means of redress – they will disengage from companies. There is no inherent trade-off between digital innovation and protecting consumers’ privacy. Indeed, the more comfortable consumers are with how their data is protected and privacy respected, the more likely they are to engage with brands. It is imperative that businesses and consumers have a transparent framework to enable consumers and the economy to benefit from digital innovation.

But the current body of data protection and privacy law has been developed in an ad hoc manner, and this continues to be the case in Whitehall – as policy is developed by different departments for different purposes – and in Brussels, where many member states have traditionally held a more defensive view of privacy than the UK. Current developments that will, at least in part, impose on the data protection framework include the review of the Data Protection Directive and implementation of the ‘cookies’ directive from Brussels, and the review of RIPA and the Prevent strategy in the UK.

This sense of uncertainty that this breeds prevents firms from developing the new products and services that they can provide for the benefit of consumers, and vitally – due to the low transaction costs in a digital environment – export overseas. If the UK is to become a global hub for digital innovation, firms will need to see a more joined up approach and **government should develop a transparent and accountable data protection strategy that is acceptable to both businesses and consumers.** Given the international nature of many of the developments in this field, the UK should look to upload this strategy to international to improve global consistency in standards across the increasingly integrated digital global economy.

Cloud services

Cloud services worldwide are worth nearly \$75bn a year and are expected to grow at 20% a year in the near future. The development of the cloud will have serious implications for data privacy, with information increasingly shared across digital platforms. Businesses view many potential benefits in the migration of services and applications to the cloud, but are often reluctant to give up ownership completely. New methods of establishing trust, such as accreditation standards, trusted intermediaries and compensation arrangements, would encourage greater adoption of cloud computing services.

Government should maximise potential to export digital services

The UK communications sector already enjoys comparatively strong export performance. Its continued success will play an important role in rebalancing the British economy. But more can be done to boost digital sales overseas. While exports in the communications sector are predicted to grow by at least 8% between 2010 and 2020, it is crucial that the government acts as a primary enabler, providing the communications industries with a supportive framework to work alongside.

Building export links with the BRIC countries should be a government priority

The government must redouble efforts to establish strong export channels with the major emerging economies, particularly the ‘BRIC’ countries. A recent report suggests that exploiting these emerging market opportunities has been the central difference between the UK and Germany in terms of general export success,³³ an important consideration for government. As incomes rise in these economies, their citizens will increasingly consume services, many of which can be delivered online. British firms must be in a position to take advantage of this huge potential, and one of the key focuses in the short term must be in helping these countries to establish effective IP frameworks – which many of them currently lack – so that the content and services that are exported are protected. The new IP attachés will be of particular relevance and assistance to this relationship development, and the government should look to target them in the countries with the greatest growth potential.

UKTI must be increasingly digitally aware

UKTI must also be appropriately leveraged as an effective advocate for the diverse communications sector. While already making good progress, there is undoubtedly scope to improve the reach of the organisation. In terms of specific provisions, **the Trade Access Programme should be clarified.** This is crucial, as its current year on year change has been shown to have had detrimental impact on routes to market for independent content producers.

There is also scope for UKTI to further overseas relationships, in order to maximise export opportunity. The Film Co-Production Agreement, signed to cement a close relationship between China and Australia in 2007, would be a particular example of how partnerships abroad should be nurtured. UKTI should look to take an increasing role in promoting UK digital services in this manner.³⁴

OFCOM must adapt its focus from internal structures to external reach

OFCOM was created as a result of the 2003 Communications Act. This was a crucial step, creating a unified body to provide coherence to regulation of the sector. The body has a dual role as both a consumer and an economic regulator, and its general duties are set out under Regulation 3 of the 2003 act. While this regulation was clearly crafted with regard to the need to support the sector – Reg 3.4.d, for instance, requires that OFCOM considers the ‘desirability of encouraging investment and innovation’ while carrying out its duties – it is a very UK-centric example of regulation, focussed on meeting the needs of different interest groups (Reg 3.4.l) and the need to prevent ‘crime and disorder’ (Reg 3.4.j).

Given the intense global competition the UK is facing, government should revisit Regulation 3 of the Communications Act 2003 to ensure that OFCOM is focused on enabling external reach and maximising the potential of the UK communications sector on a global stage.

BBC Worldwide should be utilised as a mentoring tool for the export of content

While UKTI can provide routes to market, it is clear that in many cases the success of smaller content providers in bringing their product to market is dependent on knowledge and expertise, rather than finance specifically. The BBC is one of the world’s biggest receptacles of this type of knowledge, and much is already being done to leverage this resource for the benefit of UK content providers. Because of their relative size – typically small outfits employing a handful of technical experts – **there is a particular role for BBC Worldwide to play as a key facilitator and partner** of smaller content providers seeking opportunities abroad. The BBC should look at how it might leverage its expertise in exporting content globally to help these smaller, independent outfits.

BBC

The BBC is a prime example of how British successes in exporting content and services are being extended across the globe for maximum impact. The BBC iPlayer currently provides UK viewers with an accessible, high quality platform to view on-demand content, and is considered to be a market-leader in this area.

In July 2011, BBC Worldwide launched the iPlayer as an application in 11 European countries, with further expansion currently being discussed. The export of this service will allow the UK to maximise its export potential on a globally innovative service, building on current successes in international markets and bolstering our reputation as the global trailblazer in communications.

Summary of recommendations:

- The government should develop a transparent and accountable data protection strategy that is acceptable to both businesses and consumers.
- The Trade Access Programme should be clarified.
- The government should revisit Regulation 3 of the Communications Act 2003 to ensure that OFCOM is focused on enabling external reach and maximising the potential of the UK communications sector on a global stage.
- There is a particular role for BBC Worldwide to play as a key facilitator and partner of smaller content providers seeking opportunities abroad.

References

- 1 For the purposes of this report, the communications sector will be defined (in accordance with recently commissioned government data) as: The telecommunications sector: (the activities of providing telecommunications and related service activities, including transmitting voice, data, text, sound and video and the internet) and; the digital content sectors: this refers to a cluster of 'content' industries, identified by the Technology Strategy Board, which are principally delivering digital output and are technology-aided. They include video, film and photography, music, publishing, radio and TV computer games, social media and software that supports these industries and the telecommunications sector.
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The CBI

The CBI's mission is to help promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all.

To achieve this, we campaign in the UK, the EU and internationally for a competitive business landscape.

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