Broadcasting Policy in the Era of Global Value Chain-Oriented Industrialisation

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When shaping industrial policy - and broadcasting policy in particular - the British Government needs to take into account the emerging structure of the global economy, which is characterized by a twin process of international fragmentation of production and integration through trade. Fragmentation is caused by the growing number of companies that outsource part or the entirety of the production process and that sell products they do not manufacture. These include large-scale retailers in a variety of sectors (e.g. food, consumer electronics) and branded marketers such as Apple or M&S (Gereffi, 2001: 1620). In parallel, world markets have integrated through trade, which in recent decades has grown dramatically both as a percentage of the world GDP and in absolute value: world merchandise exports have risen from US$ 59 billion in 1948 to US$ 18,301 billion in 2013 (WTO, 2014: 23).

The process of fragmentation corresponds to 'a breakdown in the vertically-integrated mode of production' and a world-scale division of labour as multinationals spread their operations across the world allocating tasks and resources according to the competitive advantage they find (Feenstra, 1998: 31). The international disintegration of production is sometimes referred to as the 'second unbundling', following the first unbundling of production and consumption which accelerated with steam power in the 19th century (Baldwin, 2013: 13-26). These disintegrated production processes have become characterized by inter-firm networks that span borders and form *global value chains* (GVCs), which Gary Gereffi defines as 'sets of interorganizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world-economy' (Gereffi et al., 1994: 2.). Today, trade of *intermediate goods* within value chains is worth US$ 7,723 billion, which represents more than half the total value of (non-fuel) global exports (WTO, 2013: 182-3).

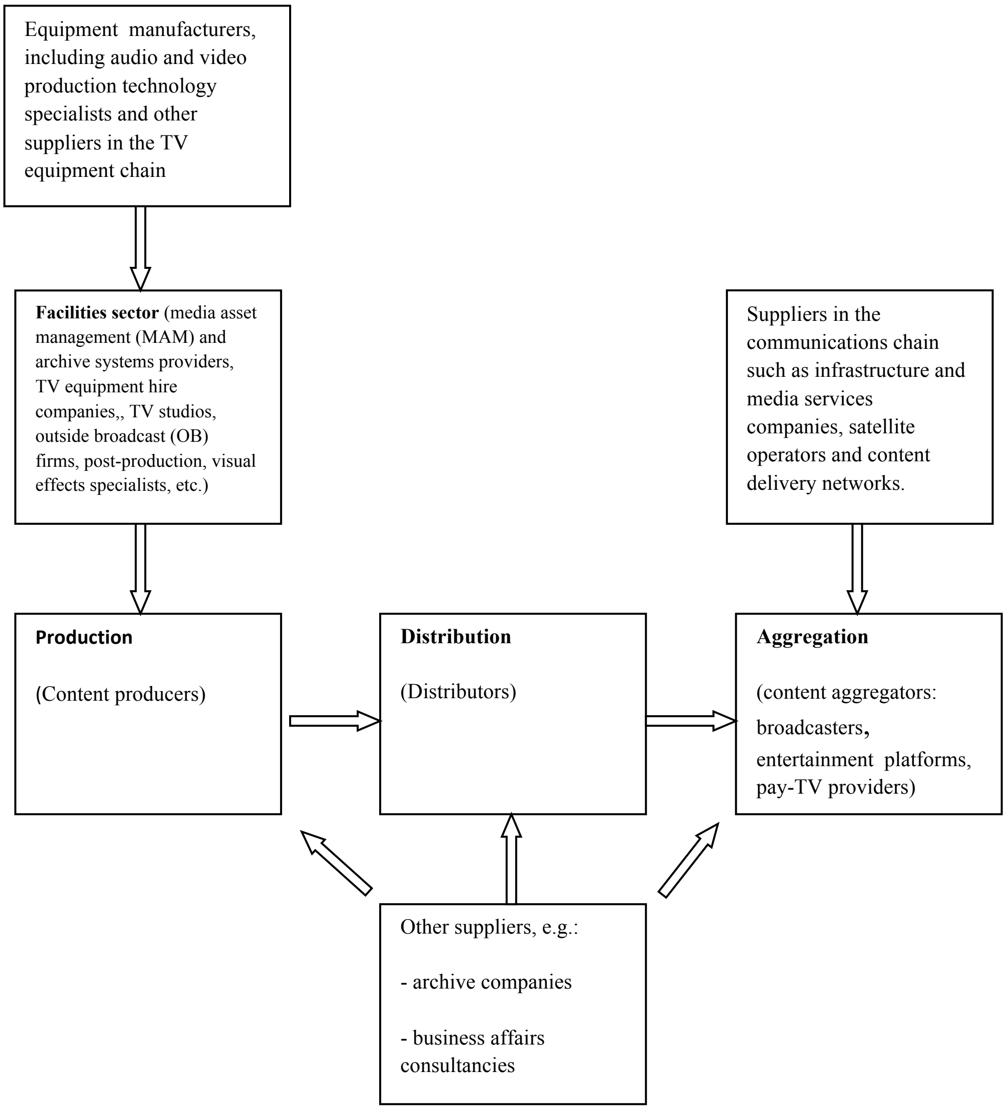
The creative industries – and television in particular – are no different to other industrial sectors and are increasingly structured by global value chains that span the globe. As argued elsewhere, value chains are at once a *structural* reality of the TV industry - television is globalizing because value-adding sequences have become international - and a *structuring* reality – firms' decisions and strategies are coordinated by a value chain that is global in scope.

In the context the British TV industry, and British PSBs in particular, the chain that is most relevant is the *TV content value chain* (Chalaby, 2016). Until the late 1980s, with the exception of the USA, broadcasters were fully integrated operations: apart from domestic films and imports from Hollywood, they produced much of what they aired. Cultural sovereignty was foremost in the minds of regulators and foreign broadcasters were not allowed to transmit on national territory. The law books of many nations also granted a monopoly to public broadcasters, who were tasked with entertaining the masses in an acceptable manner and making a contribution to national culture (e.g. Scannell, 1996).

The disassembling of the old production model occurred when a combination of factors, including economic growth, rising industrial complexity, deregulation measures, trade liberalization and new technology, consumer demand and preferences, progressively led media firms to concentrate on those activities in which they retained a competitive advantage. This strategy created production segments that progressively formed a chain through which TV content began to travel from inception to consumption. This chain acquired international scope when broadcasters stepped up foreign outsourcing in search of the best programmes and formats, and when their own suppliers expanded across borders (Chalaby, 2016).

The nature of the TV content value chain varies in accordance with the type of content (finished programming, formatted entertainment or sports), the key segments remain similar in all cases. It is composed of three core segments: content production, distribution and aggregation (Figure 1).

Figure 1: The TV content global value chain



Source: Chalaby (2016)

GVCs are relevant to policy makers in so far as they induce a specific type of economic development and thus require a specific policy framework: ‘As economic development has increasingly occurred within the context of GVCs, it has taken the form of upgrading into higher value added functions within a given chain or into new chains that generate more value added’ (Milberg, Jiang and Gereffi, 2014: 153), a phenomenon called *GVC-oriented industrialization* (Gereffi and Sturgeon, 2013).[i] Thus, as the same authors argue, ‘with GVCs, competitive improvements come not with the development of the fully integrated scope of activities in an industry, but by moving into higher-valued tasks associated with the industry’ (2014: 170).

The implications for British PSBs and their regulators are clear: the BBC and Channel 4 (C4) may perform important public service duties, as many experts seem to agree (see, for instance, Picard and Siciliani, 2013); equally importantly, they are local lead firms in the TV content value chain. As such, they buy services from a wide array of suppliers, most notably content from independent TV production companies. Through deft policy making since the early 1980s (launch of C4, production quotas, terms of trade, etc,), the UK has fashioned for itself a world-leading TV production sector, now worth £2.9 billion. In addition to its significant contribution to the British creative economy, this performance has helped the UK to become the world’s second largest exporter of television programmes behind the USA, with international revenue £891 million, and the world’s largest supplier of TV formats (Chalaby 2010; Jones, 1995; Oliver & Ohlbaum, 2015). Producers have their own suppliers (TV studios, outside broadcast firms, post-production houses, etc.) the firms that service them are part of the ‘facilities sector’, which consists of 1,300 businesses employing in excess of 50,000 people for a combined turnover of £2.2 billion (Pennington, 2011: 14).

In an era of GVC-oriented industrialization, TV formats and finished programmes must be considered as intermediate goods supplied by firms that specialize in the production segment. Thus, any policy decision in the broadcasting sector must take into account the needs and interests of firms along the entire TV content global value chain.

It is apparent that the potential privatisation of C4 is a threat to the independent production sector. A bottom line-oriented broadcaster would necessarily revisit the channel's remit and at the very least sharply reduce the number of indies it works with (currently at 350-plus).

C4's existing remit also help balance the country's TV ecology, which is characterized by a healthy balance between competition and diversity. The British TV marketplace is certainly competitive but with broadcasters relying on distinctive business models (e.g. pay-TV subscription for Sky, licensing money for the BBC and advertising for ITV), revenues flow from a variety of sources. The system's ecology is so designed that competition encourages innovation and does not prohibit risk-taking.

C4 is set out to take risks and is a testing ground where countless ideas have been tried over the years. The public company has 'commissioned on average over 350 new programme titles per year' between 2008 and 2013, more than any other British channel, and first-run commissioned hours represented 29 per cent of the total schedule for the same period, a higher proportion than any other channel (Oliver & Ohlbaum, 2014: 84-5). The broadcaster has gained international recognition for its attitude to innovation: for instance, Simon Andreae, Executive Vice President at Fox Broadcasting, stated that 'Channel 4 is the single richest source of IP in the world for TV' (Oliver & Ohlbaum, 2014: 19). As a result, many British TV formats, from *Wife Swap* to *Gogglebox*, that have travelled around the world have started life on C4.

For a similar reason, any change to the terms of trade between broadcasters and producers need to be carefully thought through. Research shows that the TV content value chain is buyer-driven, meaning that the power rests firmly in the hands of the buyer, in this case a handful of broadcasters with large commissioning budgets (Chalaby, 2012, 2015, 2016). Finally, the debate on the BBC's charter renewal should take into account the crucial role the Corporation plays in sustaining the UK's creative economy

From an industrial policy perspective, the three most pressing matters facing British broadcasting are as follows:

1. How do UK-based producers and broadcasters build on their global success with TV formats and upgrade their position in the production segment? Such an upgrade would call for the export of more finished programming, especially in the drama genre. Global TV series are more expensive to produce, but when successful more lucrative than most TV formats.
2. How can the British TV industry retain its creativity and innovation?
3. Can – or should - UK-based producers and broadcasters compete with global aggregators such as Netflix and YouTube?

Conclusion

The global interdependence of contemporary industrial networks must be at the forefront of broadcasting policy, for the PSBs and for all the suppliers along the content chain. The paradox of the global age is that local regulation plays a determining role in firms' international performance. In an era of open markets, poor policy decisions would turn the UK from a net IP exporter into a net importer of TV formats and programmes. Three decades ago the Peacock report shifted thinking about television, approaching it as an industrial sector rather than purely a public service. Today, a similar shift is necessary as policy makers need to be aware of the industry's global scope. British firms need sound local policy to thrive on the world market, and weakening the PSBs would undoubtedly hurt their international prospects.

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[i] Some economists call this phenomenon “vertically specialised industrialisation’ as international fragmentation of production has led to “vertical” patterns of trade in intermediate goods between companies or subsidiaries of multinational enterprises that specialise in a segment of the production process (e.g. Milberg et al., 2014; Miroudot and Ragoussis, 2009).