

The BBC's Fair Trading Commitment

A commitment to fair and open competition in commercial markets, on behalf of the licence-payer and the British broadcasting industry

- The BBC and commercial activities
- Our main fair trading principles
- Implementation

1 Introduction

A commitment to our customers and competitors

The BBC is established by Royal Charter to provide a public broadcasting service which is available to all and funded by all. We have a responsibility to provide services of high quality, integrity and distinctiveness to our audiences, and to maintain high standards in the broadcasting industry. Everyone who comes into contact with the Corporation has a right to expect it to conduct its operations with integrity and competence.

This is equally important when the BBC participates in commercial markets. Because of our special position as a publicly funded institution, we have particular obligations to our audiences, customers and competitors.

This means that we must ensure that all of our commercial activities reflect the principal editorial and public service values of the BBC, that we make maximum use of our assets on behalf of the licence-payer, and that we do not exploit our position as a publicly funded body to secure any special advantage in commercial markets.

The Fair Trading Commitment explains how the BBC will meet these important obligations.

2 The BBC and commercial activities

Securing the future of the BBC

The BBC engages in a wide range of commercial activities, at home and abroad, and is one of the leading worldwide broadcasting brands. We export BBC programmes to broadcasters around the world, publish books and magazines linked to our programming, sell video and sound recordings of BBC programmes, and license an extensive catalogue of products, based on popular programmes and characters.

Our highly regarded international news and information channel is commercially funded, operates in Asia, Africa and Canada, and is being extended to cover other important territories. In the medium term, the BBC will extend its commercial activities to include additional international television channels, and new multi-media products.

These commercial activities make an important contribution to the BBC's overall programming and public purpose:

- they *help maximise the value of our programme assets*, and so provide a return on licence-payers' investment in programmes
- they *generate extra income* which can be re-invested in our core programming, helping us to maintain quality in the face of rising costs of programme rights and talents

- they *extend our services* into new markets, and ensure public service programmes and products are represented in a rapidly changing media world.

Without an ambitious commercial strategy, the BBC will be unable to play a full role in developing media markets, and will experience increasing pressures on funding.

Need to guarantee fair trading

As a publicly funded organisation the BBC must ensure that no legitimate concerns could arise from its participation in the commercial world. Governments and regulatory bodies at home and abroad maintain close interest in the commercial activities of publicly funded broadcasters. Their main concerns are that public broadcasters may use public funds to subsidise their commercial ventures and distort competition in commercial markets.

To address these issues, the BBC has established an important new set of guidelines that are designed to ensure that our commercial activities are consistent with our overall programming purpose, conducted in a transparent manner and do not involve cross-subsidies from public funds. This is our **Fair Trading Commitment**. It is a commitment to the action necessary to demonstrate that we will not divert any public funds to commercial ventures, or use our access to public funds to compete unfairly against other commercial companies.

3 Our main fair trading principles

Three main features

Our Fair Trading Commitment has three main features:

- clear criteria established for all our commercial activities
- fair competition in all markets
- no risk to the licence-payer

Clear criteria for our commercial activities

Our commercial activities will meet clear criteria which explain the rationale for our involvement. They must be commensurate with our role as a public broadcaster, and reflect the same values and purpose as our main services. We will engage in commercial activities that extend audience enjoyment of and interest in our programmes, and provide new ways of delivering the BBC's creative skills and output to audiences around the world.

All our commercial activities will:

- be linked to and consistent with the programme purposes of the BBC
- reflect the same values of editorial quality and integrity
- plainly arise from and support BBC programmes
- add to viewer and listener choice
- comply with legal and regulatory requirements
- offer the prospect of generating significant funds for reinvestment in BBC programmes

In developing our commercial activities, we will always seek the best means of ensuring that we have the necessary degree of brand and editorial control, (to protect the independence and integrity of the BBC), and that licence-payers benefit fully from the profits generated.

A commitment to fair competition

All of our commercial activities will compete fairly, and none will have privileged access to public funds. A fundamental principle is that we will not use licence fee funds or grant-in-aid to subsidise our commercial activities, or to support any operating losses made by such activities.

We will therefore ensure that our normal commercial practice is characterised by:

- arm's length relationships between our commercial activities and the rest of the BBC
- transparency in commercial dealings
- fair pricing

Arm's length relationships

In order to ensure that the BBC's commercial activities are conducted at arm's length from our publicly funded services, we are drawing clear boundaries between our core services and our commercial ventures. Our key commercial activities will normally be pursued through an entity or entities that are clearly separate from the main part of the BBC, usually as separate subsidiaries.

Transparency

Transactions between the BBC and our key commercial ventures will be conducted through contracts or service agreements for all goods and services supplied. Where a separate commercial subsidiary has been formed, we will produce separate, independently audited, accounts for that subsidiary. Where an internal business sales unit trades with the outside world, we will use separate trading accounts.

Fair prices

Where the BBC's commercial activities require the use of BBC programmes, facilities, resources or other inputs, fair prices will be negotiated which take proper account of the cost of provision of such inputs. We would not normally expect such prices to be out of line with the prevailing market price for similar inputs, and in no cases will we establish prices which are below the relevant cost of producing the good or service.

Promotion

The BBC's core public service in the UK will not be used unfairly to promote our commercial activities in the UK. In practice this means that we will continue to observe the letter and spirit of our undertaking to the Office of Fair Trading concerning on-air trails for our magazines.

No risk to the licence-payer

We will not place licence-payer funds or grant-in-aid at risk. This means that we will not use public funds to invest directly in our commercial activities or to guarantee any such investments. As in

any commercial company, we may from time to time wish to use commercial profits generated to finance the start-up costs of new ventures. Overall, however, we will expect our commercial activities to provide a *net inflow* of funds to supplement the BBC's publicly funded income.

To encourage efficiency and effectiveness, we establish, like all companies, business targets for our commercial activities, and measure performance of our commercial activities against those targets and in comparison with other similar commercial companies.

4 Implementation

Effective measures to ensure the guidelines are observed

Practical implementation of the Fair Trading Commitment involves:

- adoption throughout the BBC of detailed fair trading guidelines, based on the principles outlined in this document
- commercial structures, with arm's length relationships and transparent trading for our main commercial ventures
- a rigorous scrutiny process for all new equity stakes, joint ventures and strategic investments
- annual performance reviews of all our commercial entities, which will include an assessment of adherence to fair trading guidelines
- support given by the Controller, Fair Trading, who will work to ensure that all parts of the BBC understand and implement the guidelines
- an annual review by the BBC Governors, who have final responsibility for ensuring compliance with all relevant statutory and regulatory requirements. This will be informed by an independent review of the fair trading guidelines by external auditors.

Each year in our Annual Review, the Governors will report to the government and the licence-payer on the effectiveness of the BBC's fair trading guidelines.

5 Conclusions

Unlocking the BBC's commercial potential

The BBC is committed to fair and open competition in commercial markets, on behalf of the licence-payer and the British broadcasting industry. The guidelines set out in this Fair Trading Commitment will ensure that we trade fairly, and do not expose licence-payers funds or grant-in-aid to financial risk. Within this framework, we will be able to compete strongly in fast-growing media markets, unlocking the BBC's creative and programming potential at home and abroad. Success in commercial activities will generate new income for BBC programmes and services, and enable us to play an effective role in the new media world.