


PO-CH/NL/0217  
PART A

Part A

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Begins: 3/8/87.  
Ends: 30/11/87.

  
PO -CH /NL/0217  
  
PART A

Chancellor's (Lawson) Papers:

THE TELEVISION  
BROADCASTING INDUSTRY

Disposal Directions: 25 years



13/9/95.

PO -CH /NL/0217  
PART A

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

3 August 1987

CC Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Burgner  
Mr Gilmore  
Mr Scholar  
Mr Spackman  
Mr Cave  
Mr Kaufmann  
Mrs Pugh  
Mr Flanagan  
Mr Cropper  
Mr Tyrie

Philip Mawer Esq  
Private Secretary to the Home Secretary  
Home Office  
Queen Anne's Gate  
LONDON SW1H 9AT

A handwritten signature in blue ink, appearing to be 'pmg'.

Dear Philip

#### INDEPENDENT PRODUCERS

The Home Secretary and Mr Renton discussed this subject on 30 July with the Chancellor, Lord Young, officials and Mr Langdon (Cabinet Office).

Mr Renton reported that he had seen representatives of the independent producers that morning. The message was that they were making good progress with the BBC. They hoped to finalise agreement in September, and publish the agreement. That would put pressure on the ITV companies. The latter were being rather dilatory, especially over residual rights, and the question of "independents" in which ITV companies had major shareholdings. The independent producers would let Mr Renton have a progress report on their talks with the BBC and ITV companies in September.

Lord Young said that he had recently seen Michael Checkland, who had said that the BBC would meet the independent productions target eventually - but not in full by 1990. The Home Secretary confirmed that, with the BBC, the question was the speed at which they would move on their "second phase".

In discussion, the following points were also made.

a. There was ambiguity as to exactly what the 25% target applied to. It should be broadcasting hours not value. It should probably cover all material except news. The 25% independent productions should be spread across the whole range of programming, including some peak viewing time programmes.

b. In their first phase, all the BBC were offering was 500 hours of broadcasting (about 12%, excluding news) by 1990. This was well short of the target. It would be important to

AWK  
To  
HOME  
OFFICE  
3/8



make sure that they met the target in spirit as well as in the letter.

c. The IBA's proposed definition of an "independent" was unsatisfactory. It would include, for example, a 49% subsidiary of an ITV company. The rule should be that ITV companies, in aggregate, should not hold more than 10% of a company if it were to qualify as an "independent".

d. On the issue of rights, the independents thought they would reach a satisfactory agreement with the BBC, and the draft IBA agreement seemed satisfactory - if the ITV companies signed up to it.

e. HMG should not specify what the draft contracts should say, but only make clear what would be unacceptable. On the question of enforcing agreement, some ITV companies did not have a happy history of living up to commitments made once they had been awarded their franchise. In this case, however, the franchises would be due for renewal after only 3 years; this would give an increased incentive to compliance.

f. It was noted that the independents might well settle for cost-plus contracts. This was undesirable, but it was hard to see how the Government could prevent it. There was a danger that the present IPPA members would create their own exclusive club. It was important that, in that case, new independent producers should be able to come along and enter the market, competing on costs.

g. The ITV companies might make it a requirement that independent producers had to be unionised - in practice this meant recognising the ACTT. Even though independents made very different agreements with the ACTT than ITV companies did, this was a worrying development.

h. Finally, it was noted that there would be no pressure on the IBA to reduce its costs unless ITV transmission were contracted out (as was already being considered for ILR transmission). The Home Secretary would be looking into this - and also the transmission arrangements for Channel 4.

I am copying this letter to Jeremy Godfrey (DTI) and Anthony Langdon (Cabinet Office).

Yours sincerely  
 Tony Kuczys

A W KUCZYS



cc: CST  
 FST  
 PMG  
 EST  
 Sir P Middleton  
 Mr F E R Butler  
 Mr Anson  
 Mr Monck  
 Mr Burgner  
 Dr Freeman (CCTA)

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

18 September 1987

Colin Miller Esq  
 PS/Home Secretary  
 Home Office  
 Queen Anne's Gate  
 LONDON  
 SW1H 9AT

Mr Scholar  
 Mr Spackman  
 Mr Burr  
 Mr Rayner (CCTA)  
 Mr Waller  
 Mr Kaufmann  
 Mr Cave  
 Mr Tyrie

CR  
 TO  
 HOME  
 OFFICE  
 18/9

Dear Colin,

The Home Secretary met the Chancellor and Lord Young at 4.45 pm in No.11 Downing Street yesterday. Also present were Mr Gilmore (Treasury), Mr Hyde (Home Office), and Mr MacDonald (DTI).

The Home Secretary said that the Government was committed to a major Broadcasting Bill in the next Parliamentary Session. Amongst other things it would need to cover decisions on the Radio Green Paper; the ITV system (including competitive tender and Channel 4; and independent production if necessary); a Broadcasting Council; responsibility for collecting the licence fee; and the funding of the Cable Authority. On these matters, while there were some decisions still to be taken, there was no special problem. There was also new work to be done for the Bill on regulation. But at least two new issues had arisen, a Fifth Channel and MMDS, which would be very difficult to deal with adequately on the same timescale. He would be grateful for his colleagues views on the handling of all this.

Lord Young said that MMDS was technically some way into the future; the more immediate problem was satellite television. It was extremely difficult to regulate, and that would be used as an argument for a light regulatory regime for terrestrial programmes also. The Chancellor noted the possibility of an international agreement on satellite. But we must not accept that terrestrial regulation had to be on all fours with satellite. In the meantime, the immediate questions raised by the Home Secretary focussed on procedure in relation to legislation. Some of the necessary policy decisions had already been taken; further decisions would be for MISC 128. He would be happy to hold informal meetings with the Home Secretary and Lord Young if that would expedite matters. As to the Bill, he wondered how far use could be made of enabling legislation. This would distinguish helpfully between the timing of instructions to Counsel and the very different



timing by which those concerned with commercial decisions would need to know the detailed ground rules for those decisions. It would also allow a continuing flexibility, which would be needed in an environment of rapid technological and commercial change.

The Home Secretary suggested that it might be possible to have two Bills - one dealing with institutional change and radio in the 1988-89 session, postponing the main TV Bill to 1989-90. This would still be in time for the new ITV franchises, and would allow DTI more time to reach a measured view on MMDS and on telecommunications generally. Lord Young said he was very attracted by this idea. The Chancellor added that there was a risk that the Home Secretary might not find it possible to secure a place for two Bills, given the pressure on the business managers. Lord Young said that something might turn on which Bill dealt with the regulatory framework. A suitable division might be to deal with radio, Broadcasting Council, the next round of ITV franchises and Channel 4 in one Bill, and regulation and spectrum matters in the second.

The Chancellor commented that the situation which had arisen underlined two points about the policy decisions to be taken: the shortcomings of the cable policy, and the dangers of basing Government policies on "chosen players".

The Home Secretary said that in the light of this discussion he would have a word with Lord Whitelaw and the business managers concerning the Bill or Bills.

I am copying this letter to Paul Steeples (DTI), Mr Gilmore (Treasury), Mr Hyde (Home Office) and Mr MacDonald (DTI).

*Yours sincerely,  
Cathy Ryding*

**CATHY RYDING**  
Assistant Private Secretary



**INSTITUTE of PRACTITIONERS in ADVERTISING**

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The Rt. Hon. Margaret Thatcher, MP., FRS  
10 Downing Street  
London  
SW1

23rd September 1987

Dear Prime Minister

First I would like to thank you for inviting me to be present at Monday's seminar and to say how valuable I found it.

Secondly, you did invite us to write to you should there be any points we might like to amplify or for which the discussion did not provide adequate time. I tried to catch your eye towards the end of the Channel Four discussion but I realised that this could hold up the introduction of the final session. I therefore welcome this opportunity of making the points I would have made then.

The suggestion has been made that the separate selling of Channel Four advertising airtime would place in jeopardy the quality and distinctive character of the Channel. This is a view which advertising agencies would contest for the reasons set out in the attached memorandum.

This memorandum suggests a means by which the unique character of Channel Four would be preserved and yet additional resources made available to it. At the same time it would remove the ITV companies from any connection with the selling of Channel Four advertising airtime.

While, as the seminar illustrated, the prospects for more choice and competition in television are very encouraging from, say, 1993 onwards, advertisers and their agencies are alarmed at the prospect of a continuation of present arrangements with its absence of competition in the interim. The enclosed proposals are an attempt to introduce at least some measure of change at an earlier date. Similar proposals could be applied to the selling of advertising in late night ITV programmes.

Again, I am most grateful for the opportunity of being involved in these discussions.

Yours sincerely

A handwritten signature in black ink that reads "David Wheeler". The signature is written in a cursive style with a long horizontal stroke at the end.

David Wheeler  
Director General

Enc

# INSTITUTE OF PRACTITIONERS IN ADVERTISING

## THE SEPARATE SELLING OF CHANNEL FOUR ADVERTISING AIRTIME

1. Advertising airtime on Channel Four, with the exception of a few television areas, has been very inefficiently sold by the ITV companies.
2. Even so, Channel Four is now attracting advertising revenue in excess of its costs of operation.
3. If the sale of Channel Four advertising airtime were in the hands of a separate dedicated sales company it would generate more revenue from the existing Channel Four programme format.
4. Channel Four is potentially a valuable advertising vehicle for advertising agencies because of its special properties. It should be enjoying a premium value. Its ability to command a premium value would disappear if its character were to change. This would not be in the interests of either Channel Four or advertisers.
5. The additional revenue arising from more effective selling would provide Channel Four with greater resources to invest in programmes particularly via independent production companies. This leaves the critical question of how can this be achieved without undermining programme content?
6. Currently Channel Four is a separate subsidiary of the IBA. The IBA receives revenue from the ITV companies and, in effect, hands it over to the Channel Four Company for its working funds.
7. We suggest that the IBA should make available a separate franchise, for which tenders would be invited, to operate a separate and independent Channel Four Advertising Sales Company. Existing ITV companies should not be permitted to bid for this franchise. Instead we believe there is sufficient entrepreneurial talent combined with sales experience of media marketing to attract a number of companies, and no doubt several new ones, to bid for this new franchise.
8. The revenue from the sales generated by the Channel Four Advertising Sales Company would be handed over (after deduction of management fees and selling costs) to the IBA. Acting as a filter, the IBA would make this revenue available to the existing Channel Four Company to meet its costs of operation.
9. In this way the management of Channel Four would not be diluted by the need to manage a sales operation, while the IBA, in properly exercising its responsibilities under the Broadcasting Act and from its central position, would be expected to see that the independence of the Channel Four Company was preserved.
10. There would be no management connection between the Channel Four Advertising Sales Company and the Channel Four Company itself.
11. The function of the advertising sales company would be to take the commercial airtime within the programme schedules drawn up by the Channel Four Company and sell them to its best ability.
12. The additional revenue which effective selling would generate would more than cover any extra costs involved in operating the new advertising sales company and therefore increase the revenue available to the Channel Four Company.

23rd September 1987

David Wheeler  
Director General





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LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	28 SEP 1987 ✓ 209
<del>ACTION</del>	MR GILMORE
COPIES TO	CST FST SIR P MIDDLETON MR FERISZOR MR ANSON MR EVEL MR TIRRE

From the Private Secretary

25 September, 1987.

*1 sub to Graham for an p15 Mr Gilmore man have over & done that we discuss when we meet post - seminar.*

**PRIME MINISTER'S SEMINAR ON BROADCASTING**

I am circulating herewith a record, prepared by the Home Office, of the Prime Minister's seminar on broadcasting.

I also enclose texts of two of the introductory statements made at the seminar, by Mr. Richard Hooper and Mr. David Graham, together with a letter from Mr. Jeremy Isaacs about the future of Channel 4, and a letter from Mr. David Wheeler of the Institute of Practitioners in Advertising about the separate sale of Channel 4 advertising air time and the effect of this on the quality and distinctive character of Channel 4.

I am sending a copy of this letter to the Private Secretaries to members of MISC 128 and to Trevor Woolley (Cabinet Office).

David Norgrove

Mike Eland, Esq.,  
Lord President's Office.

RECORD OF THE PRIME MINISTER'S SEMINAR ON BROADCASTING,  
21 SEPTEMBER 1987

A list of participants is attached.

Prime Minister's introductory remarks

The Prime Minister thanked the members for attending the seminar. She said that its purpose was to consult members of the industry and other experts with a view to the Government taking informed decisions in three areas:

- (i) the prospects for the future of broadcasting in the light of accelerating technical developments;
- (ii) what changes should be made in response to the recommendations of the Peacock report; and
- (iii) what new arrangements should be made in the light of public concern about indecency and violence on television.

Professor Sir Alan Peacock: The Peacock Report 14 months later

2. Professor Peacock outlined his Committee's belief in the importance of consumer sovereignty in broadcasting and the need to overcome spectrum scarcity. The financing of broadcasting should be left to the market place and the likely result would be a mixed system of subscription and advertising, as for newspapers and magazines. He recognised that some elements of public service broadcasting could not survive without public funding, and he regretted that the Government had not yet commented on his proposals for a public service broadcasting council (PBSC).

3. He would summarise his recommendations for the future in the following way:

- (i) drop the requirement for universality for any new television channels;
- (ii) no public funds should be hypothecated to any particular channel but should be available to all;
- (iii) the allocation of public funds should take account of regional needs;
- (iv) the existing channels should be required to buy programmes from independent producers;
- (v) BBC archive programmes should be placed in the public domain and be available to anyone at an appropriate fee.

He recognised that under these proposals the BBC would become just another television company and that there would be a need for transitional arrangements in the interim.

Richard Hooper: the three T's - Television, Technology and Thatcherism

4. Mr Hooper said that in his view the key issues were political, commercial and regulatory, not technological. Technical constraints were often a disguise for the perpetuation of the status quo by special interest groups. The remote control key pad had already changed the way people watched television, and the video recorder had in effect provided a "fifth channel". Cable, which had been blocked by successive governments until the 1980s, was a major success in many other countries and had caused a revolution in viewing habits. In Britain, over a third of television viewing in the few homes with cable was not to BBC and IBA services. He saw satellite and cable as being complementary: cable serving city centres and satellites the suburbs and rural areas where cable was uneconomic.

5. The time scale for these new delivery systems was long, and the central question was how to loosen up the duopoly in the meantime. The answer lay in new terrestrial services on the VHF, UHF or microwave bands: spectrum scarcity was a myth. He also asked whether it was now time to reconsider the policy which prevented the national telecommunications operators from carrying television services on their main networks.

6. In discussion the following points were made:

- (a) It had been a mistake to make cable policy technology-led. Cable operators were in the business of retailing local television services. The precise means of delivery were irrelevant, and with the advent of MMDS or access to other terrestrial frequencies, they should be allowed to use whatever technologies they judged to be commercially attractive.
- (b) Two new satellite services - Astra and BSB - were likely to be launched in the next two years providing a wide range of new channels. The Director General of the IBA said that there was no statutory problem in ITV companies providing programmes to Astra or any other satellite, but he felt that BSB, with its £600m investment and high technical and programme standards, should be given a chance to prove its worth.
- (c) There was a danger that too much change was happening too fast. More television channels did not necessarily mean wider choice for viewers. There was only a limited amount of money to make programmes and if it was spread too thinly production standards would fall, as would standards of taste if there were a ratings war.
- (d) Against this, it was argued that increased competition was inevitable and was already happening. There had always been misgivings whenever new channels had been permitted. None of these had been justified by events. Increased choice would allow more quality programmes and more specialist programmes, as well as more rubbish to be shown.

7. Summing up this part of the seminar, the Prime Minister said that she would regret it if there was a sharp division of opinion between those with vested interests and those without. Without a Conservative Government's support for competition in the 1950s there would have been no ITV system. She had been struck by the rapid development of videos which showed the large demand for additional choice on the part of viewers.

Charles Jonscher - financing of additional programme services

8. Dr Jonscher summarised the findings of his study for the Home Office on subscription television. These showed that there was a large untapped demand for new premium programme services matched by a willingness of consumers to pay. The problem was that existing methods of payment - the licence fee and advertising - were not able to provide the funds necessary to meet the high costs of premium programming. The key was subscription technology, coupled with arrangements to allow wider entry into the broadcasting market by freeing up spectrum allocation and removing other regulatory barriers. The power of pay television to satisfy consumer demands was so great that existing broadcasting interests would fight hard to prevent it, as they had attempted to do in the USA.

9. In discussion the following points were made:

- (a) BSB were already planning to provide a subscription service for films and other premium material. This would establish whether such a market existed.
- (b) There were doubts about whether there was an adequate supply of premium material to support subscription services on any significant scale.
- (c) Advertisers still had an important part to play in television financing, but in recent years they had seen television advertising costs rising 6 times faster than inflation because of lack of supply (although it was suggested that the real costs were still less than in the USA and Australia). This was holding up the introduction of new brands and had priced out the smaller advertisers. Advertisers could probably finance £500m worth more television than at present.
- (d) In response to a question from the Prime Minister, it appeared that there was at present little demand for European-wide advertising because of language problems and the fact that different brand names were used in different countries.
- (e) Concern was expressed that new developments should not be at the expense of regional television, which provided a sense of regional community and employment in inner city areas, and a counterbalance to metropolitan values. Unlike the regional newspapers, regional television was at present under genuine local ownership and control. In response to a question from the Home Secretary, the independent producers said that they would be able to work in the regions, just as they already did in Wales.

- (f) There was a danger that in meeting the unsatisfied demand for new programmes, the majority of programme material would be bought from abroad at secondhand prices, rather than made in this country. There was, therefore, a question about how quickly change should be permitted to take place if it was not to damage our own programme production industry.
- (g) At present new entrants into the broadcasting field faced huge difficulties. For example Carlton Communications had been prevented from taking over Thames Television, and its prospects of obtaining an ITV franchise in the future were small. ITN, which was expanding its interests into international news provision, was able to do so only because it had the privilege of a monopoly of news provision to the ITV network.

#### Michael Grade - future of existing TV services

10. Mr Grade argued that the existing services should not fear the future: experience in the USA had shown that, while new technology might catch about 30% of the market, 70% would remain with the major networks, for reasons of consumer loyalty, equipment cost, and also the nature of the service which the networks provided. New services were likely to concentrate on specialist programming, and it was right that this should be done by new entrepreneurs. The BBC had no desire to expand its services further. The future role of the BBC and ITV should be to provide British programmes both for British consumers and for export (which had doubled in the last five years). He believed that universal reception was an important criterion for the existing services, although it had no place for new services.

11. The BBC was ready to accept subscription funding, but there were technical problems at present. People valued a television service free from advertising, and this was precisely one of the reasons why in the USA people were prepared to subscribe to cable. For the present, therefore, the licence fee remained the best way of financing the BBC. The indexing of the fee had forced the BBC to become more efficient and it would continue to do so. It would also go into the market place to sell its programmes and its other skills to anyone who wished to buy them, but it would charge commercially for them. The BBC faced a growing problem over the differential between its income and that of the ITV system, where salaries were over 50% higher. At present the BBC undertook almost all the training in the television industry, only to see its successful trainees join the ITV system. In the long run the BBC would only be able to buy second rate artists, writers and staff, unless this trend were reversed.

#### David Graham - increasing efficiency and competition in the duopoly

12. Mr Graham said that increasing competition did not depend upon new technology. What was required was to loosen up the existing duopoly. There was a shortage of popular drama and entertainment programmes on BBC and ITV because they had become hide-bound in their attitudes. It was important to introduce competition in programme supply, as existed in the USA, where the networks bought most of their programmes from independent production houses.

/In order

In order to increase competition he believed that public service programming should be financed from a single pool, that the public service obligations of the main channels should be reduced and the discretionary programming powers of the broadcasting authorities abolished in favour of the general law. BBC 1 should be financed by advertising, and public money kept for genuinely public service programming.

13. He questioned the value of the regional ITV system, which he did not believe accorded with people's sense of their geographical identity, which was more locally orientated. He would wish to see ITV as a national channel, and more localised channels provided by the new technologies. It was important to establish a strong programme production base through competition, so that programmes would be available to fill the new channels as they came on stream. In order to do this Channel 4 should be preserved, because it was the only existing point of entry for independent producers. But in the long run vertical integration in the national network channels should be done away with, and their main programming bought out of house. The independents needed to be able to preserve their own rights in their programmes and to be able to negotiate their own employment arrangements with their own employees. The independents did not wish to be freelances.

14. In discussion the following points were made:

- (a) Neither the ITV companies nor the BBC disputed the independent producers' views on intellectual property rights and trades union agreements. There would, however, be difficulties where a mixture of independent and network staff were used on a production, and there must be agreement about how to deal with this contingency. On intellectual property rights, the only point at issue was developing common terms of trade for the 16 independent companies.
- (b) There was a need to strike a balance between the interests of the independents and the interests of the networks. At present the independents were starting far behind, and they must be allowed to catch up. The employment agreements reached between the trades unions and the existing television interests pushed up costs. (The music recording industry had now moved to Germany and Ireland had become a major producer of televisions for the US market, both for this reason.) This damaged the interests of the independent production industry which had to compete in the same market. These problems affected the BBC also, and for this reason it did not employ ACCT technicians.
- (c) The talent unions were using their intellectual property rights to force excessive payments for the use of programmes on the new media, such as satellites. These technologies had not been envisaged when their rights had first been granted. It was important to negotiate new agreements with the talent unions and this was now being done.

15. Summing up this part of the discussion, the Prime Minister said that she was concerned that the monopoly powers of the broadcasters and what were

/effectively

effectively subsidies from public funds, led to excessive pay demands and restrictive practices on the part of the unions. This held back new developments and rated against the interests of the consumer. These appeared to be central reasons for seeking to increase competition within the industry.

#### Jeremy Isaacs - public service broadcasting

16. Mr Isaacs said that he agreed fully with the argument that broadcasting existed to serve the interests of its audience. In fact the arrangements for British broadcasting acted like a highly sophisticated market catering for a wide variety of needs and interests. It had a wider variety of programming than any other television service in the world. The Peacock Report had appeared to recognise this, but then set about dismantling all the arrangements that brought it about, finally restoring the virtues of public service broadcasting by means of the Government funded public service broadcasting council. He could not see the logic. The issue for politicians was how to add to what we already had. In particular this would meet the problem of the advertisers, which he recognised was acute. The role of the BBC was to provide good quality British made programmes, and people would be prepared to pay for it so long as it continued to do so. In the future the ITV companies would find themselves under severe pressure to go down market and would come to resent their public service obligations as they saw their profits squeezed by the new competition. But while they continued to have access to the valuable public asset of the terrestrial frequencies, he believed that they should be required to maintain their standards. He had little doubt that Channel 4 could survive as a commercial entity, but the pressure to maintain audiences and advertising revenue would inevitably reduce risk-taking in programme policies and the extent to which minority audiences were served.

17. The proposal for a public service broadcasting council was an acknowledgement of the inadequacy of the market place in this area. He did not believe it would work. The council would be swamped with applications, and a huge bureaucracy would be required to reach decisions. Only a small proportion of the finance would end up in programme making. There would be political difficulties about the funding of news and current affairs.

#### John Whitney - regulation of programme content

18. Mr Whitney said that the question concerned not only British television, but television services which were increasingly available from abroad. The job of the broadcasting authorities was to respect the public view. Mistakes were sometimes made, but the proportion of unacceptable material in the thousands of hours of television each year was very small. Every year since 1970 the IBA had conducted extensive public research. This consistently showed that only a very small number of people considered that there was too much violence on television (last year 5% thought this was true of ITV and 2% of Channel 4). This research was published each year and was available for discussion but had tended to be overlooked by the lobbyists and politicians. He recognised, nevertheless, that there was a fundamental unease in society about the power of television. The Hungerford tragedy was likely to be seen as a turning point: although no causal effect could be proved, it had

/focussed

focussed attention upon the kind of violent fantasies which people associated with television programmes. He was worried about the extension of the Obscene Publications Act to broadcasting, because broadcasting already observed far stricter standards than the Act required. There was a danger of muddle, particularly if the definition of obscenity were changed. The proposed broadcasting council on standards was likely to duplicate the responsibilities of the broadcasting authorities and to lead to double standards and second guessing. He believed that it should have a wider remit to look at other ills in society beyond broadcasting matters.

19. In discussion the following points were made:

- (a) Public service television meant more than just minority programming. For example, snooker had started as minority programming, and now dominated the schedules. BBC comedy programmes had for many years created characters and situations which had touched the national pulse.
- (b) The ITV and BBC joint programmes about AIDS had been unique in the world: the BBC needed cross fertilisation with another public service broadcaster in order to bring out its best.
- (c) One of the most powerful constraints on standards was custom and self-regulation. In the video industry in the USA this had almost entirely broken down.
- (d) There were at present very few controls over low powered satellite broadcasting. The cable authority should be given responsibility for regulating British satellite broadcasts, and the Council of Europe Convention to deal with broadcasts from Europe should be expedited. The Prime Minister suggested that consideration should be given to making it an offence for British advertisers to place business with unacceptable programme services.
- (e) There was a problem in that different countries had different attitudes towards these matters. The Swedes, for example, were very relaxed about pornography, but much stricter than the UK on violence.
- (f) As television services proliferated, the impact of any individual programme would be lessened. It should be left to individual viewers - particularly on subscription systems - to decide what they wanted to watch. The job of the programme provider should be to indicate clearly the kinds of material which his programmes might contain, and beyond that it should be left to the law of the land to regulate standards;
- (g) There was more to standards than sex and violence. The BBC was concerned about a wide range of matters, such as using children's cartoons to market toys, the handling of incest and disaster victims by journalists, the use of documentary drama, etc.

/(h)



- (h) Any new body to look at sex and violence should include in its remit films and videos. There was now a programme making industry which catered expressly for video distribution. The power of the video was no less than that of broadcast television, and it was illogical to exclude it from oversight.
- (i) International broadcasting and plurality in programming was to be welcomed, and we should beware of taking an attitude - like that of the Soviet Union - that our viewers should be protected from material which some people found unpalatable. We should trust viewers to know what was best for them. Eastenders, which was frequently attacked by Mrs Whitehouse, was the most popular programme on British television, attracting an audience of almost half the population.

20. Summing up this part of the discussion, the Prime Minister said that television was special because it was watched in the sitting room. Some people watched so much of it that there was a danger that they would get life itself out of perspective. Standards on television have an effect on society as a whole, and therefore was a matter of proper public interest for the Government.

21. Concluding the seminar, the Prime Minister thanked those who had attended. She invited anyone who had further thoughts to contribute to write to her, especially about the difficult problem of enforcing standards as television services proliferated and as overseas television services became able to be received in the UK.

PRIME MINISTER'S SEMINAR ON BROADCASTING  
MONDAY 21 SEPTEMBER 1987

GUEST LIST

The Rt. Hon. Margaret Thatcher, F.R.S., M.P.	Prime Minister
Professor Sir Alan Peacock, D.S.C.	
Sir Ian Trethowan	Chairman, Thames Television plc
Mr. David Graham	Executive Producer, Diverse Production Limited
Mr. David McCall	Chief Executive, Anglia Television Limited
Mr. Richard Hooper	Joint Managing Director, Super Channel
Mr. Charles Jonscher	Vice President, Booz Allen & Hamilton International (UK) Limited
Mr. Michael Darlow	Head of Negotiations, Independent Access Steering Committee
Mr. John Birt	Deputy Director General, BBC
Mr. Andy Birchall	Chief Executive, Premiere
Mr. Graham Grist	British Satellite Broadcasting Limited

Mr. James Gordon, C.B.E.	Managing Director, Radio Clyde plc
Mr. Michael Grade	Director of Programmes, Television, BBC
Mr. David Nicholas, C.B.E.	Editor & Chief Executive, Independent Television News Limited
Mr. William Brown, C.B.E.	Chairman, Scottish Television
Mr. John Whitney	Director General, Independent Broadcasting Authority
Mr. Jeremy Isaacs	Chief Executive, Channel Four Television
Mr. John Jackson	Chairman, Television Servicers International Limited
Mr. Tim Bevan	Working Title Films Limited
Mr. R. W. Johnson	Marketing Services Director, Procter & Gamble
Mr. Michael Green	Chairman, Carlton Communications plc
Mr. Richard Price	Richard Price Television Associates Limited
Mr. John Holt	Managing Director, Space and Communications Division, British Aerospace plc
Mr. Nicolas Mellersh	Director, Cable Television Association

*David Wheeler*

*IPA*

Sir Jeffrey Sterling, Chairman, P & O  
C.B.E.

*Chancellor of the Exchequer.*

The Rt. Hon. Douglas Hurd, Home Secretary  
C.B.E., M.P.

The Rt. Hon. Lord Young Secretary of State for Trade and  
of Graffham Industry

Mr. Timothy Renton, MP Home Office

Mr. J. W. Fairclough Chief Scientific Adviser

Mr. Alastair Macdonald Department of Trade and Industry

Mr. W. N. Hyde Home Office

Mr. N. Sanderson Home Office

Mr. A. Langdon Cabinet Office

Mr. Nigel Wicks 10 Downing Street

Professor Brian Griffiths 10 Downing Street

Mr. Bernard Ingham 10 Downing Street

Mr. David Norgrove 10 Downing Street

*Quintin Thomas Home Office.*

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THE THREE T'S - TELEVISION, TECHNOLOGY & THATCHERISM

Richard Hooper  
Managing Director, Super Channel

Paper given to the Prime Minister's seminar on  
Broadcasting, 21 September 1987.

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My proposition to this seminar is straightforward. The technology is no significant constraint upon public policy towards television in the UK. The key issues are political, social, commercial, regulatory - not technological. But be warned. Statements which purport to be purely technical may turn out to be the voice of special interest.

Should the public policy objective in the UK be to further the cause of consumer choice, competition, and cartel collapse, then the technology is ready and waiting. Hence the title of my paper - the three T's, television, technology and thatcherism. Last week in Japan, Prime Minister, where I was marketing Super Channel to Japanese advertisers, I caught the word wafting through the simultaneous translation-satcha'lism!

This piece of technology [hold up keypad] really began the consumer choice revolution in television. The remote control keypad. It allows all of us to become Michael Grade - without leaving armchair, or cigar. It has reached one third of UK homes and has radically affected viewing behaviour - without the benefits of a single Royal Commission.

This piece of technology [hold up videocassette] has already brought a "fifth channel" to just over 50% of all UK homes, again with little Government involvement and lots of market forces. The retail market for pre-recorded videocassettes in 1986 was worth £419 millions - nearly three times the size of the cinema market (£145m), or one third of the total advertising revenue earned by all 15 ITV companies in the UK.

This piece of technology [show coax cable] has for years been the means of delivery of 10/20/30 television channels. In Europe and North America, cable television serves more than sixty million homes. Cable television traditionally involves wide band one way communication into homes via coaxial cable, separate from the narrow band two way copper wires belonging to the phone company.

The average individual in a US cable home watches 8 channels on a regular basis.

But cable breaks with established television policies of providing universal coverage to all citizens. For cable television is no solution to providing additional television choice outside urban areas, because of its economics.

In the UK, cable television started late, with successive governments blocking its introduction until the early 1980's, and has made to date only slow progress. Yet in a few short years 33% of viewing in UK cable homes is not to BBC 1, 2, ITV and Channel 4. There is clearly market demand for more television choice in the UK.

Cable and satellite television enjoy a symbiotic relationship. Satellite television channels would not survive without cable television taking the signal the final mile into the home and cable television needs satellite channels to attract paying subscribers. Super Channel today is received in 8.6m homes in 15 countries - all 8.6m are on cable systems, with only a few thousand like Professor Peacock's Edinburgh residence having home dishes. In North America, the ventures into direct broadcasting by high powered satellite (DBS) to cheaper, smaller dishes in homes have been a fiasco. In Japan DBS is up and flying. In Europe, we await the launch shortly of German DBS, followed by the French in 1988 and the British BSB in 1989. In addition there is the first of the medium powered satellites - ASTRA - due for launch in 1988. Much heated debate surrounds the exact size of dish (30cms, 60cms, 90cms) and the resultant cost to the consumer.

The economic and technical characteristics of direct broadcasting by satellite (DBS) tend to favour service to the outer suburbs and rural areas, reaching the parts that cable cannot reach, thus making DBS and cable more complementary than competitive.

Satellite television on the continent of Europe has been instrumental in loosening up the long standing state monopolies of broadcasting, and introducing a greater consciousness of the consumer - the viewer, and the advertiser who pays for "free" television.

But the timescale of change with the newer technologies is long. The UK Cable Authority would expect there to be 600,000 cable homes by 1990, from just 208,000 homes today. There are 20 million television homes in the UK. BSB is predicting in 1995 7 million DBS homes in the UK. Astra's forecast is 5.1m DBS homes. CIT Research prophesies much slower growth - to 250,000 home dishes in 1995. Let's remember that the VCR has taken a decade to get into 50% of homes.

Can something therefore be done sooner to loosen up the duopoly, if that is considered politically desirable? The answer is yes, using the technology of terrestrial transmitters, but subject to the timescale and costs required to move existing users of frequencies. Charles Jonscher's report for the DTI on the radio spectrum has demonstrated clearly that the current duopoly broadcasting policy cannot be justified by spectrum scarcity. If Government is prepared to allow competition in television, new terrestrial frequencies can be found for additional programme channels - as has long been the case in the USA, and more recently in Italy, France and Germany.

Newspaper coverage in the run-up to this seminar would suggest, Prime Minister, that the option of additional terrestrial channels is now generally accepted as feasible. However, which frequencies for how many channels at what cost and over what timescale will be hotly contested with all sides summoning their own expert engineers to prove themselves right and the others wrong!

Television channels in the two VHF frequency bands are technically feasible. That is where the old 405 line channels were. However, VHF is unlikely to revert to television given the growing and commercially successful demands of mobile communications, and the need to reintroduce dual standard VHF/UHF sets.

In the UHF band there are 44 frequencies which are used to give 99% national coverage to the four UK national television channels. In the USA, a typical conurbation has at least 10 UHF television stations. To get more television channels from the existing 44 UHF frequencies would require a change in current broadcasting policy which aims for universal coverage by national channels instead of, for example, more than four channels for some parts of the population and less than four for others. The doctrine of universal availability has a price - 800 new transmitters will be installed by the IBA/BBC in the next few years to increase coverage from 99.3% to 99.5% of the population.

To get more terrestrial television channels may also require a change in engineering standards governing interference, and adopting new transmitter technologies of precision frequency control.

There is another option in the UHF bands - reallocate additional frequencies beyond the forty-four, for example numbers 35 and 37, to television broadcasting. However, to demonstrate the complexity of frequency allocation which is both national and international in dimension, this would give a problem near airports and on flight-paths because frequency 36 is used for aeronautical radar.

As we go even higher in the frequency range, beyond 1 gigahertz, spectrum congestion is less and less of a problem. Here in the very very high frequencies, clear line of sight between transmitter and aerial is a virtual requirement. In the 1 to 2 gigahertz frequencies, there is equipment already on the market, and some temporary frequency space could be made available immediately, to launch local television stations with 25 to 40 kilometre radius, as already exist in the States. In 3 to 5 years there could be the technology available at the 30 gigahertz frequency for even more localised terrestrial television distribution down to 1 kilometre radius. This technology above one gigahertz is called MMDS - Multi-point Multi-channel Distribution System.

I doubt whether it is profitable this morning to discuss the detailed allocation of individual parts of the spectrum. But I would hope that the seminar agrees that there is sufficient frequency around for new competitive tv services in the UK.

One final point about delivery technology. PTOs (public telecommunication operators) such as Mercury, BT and the City of Hull can, technically, deliver television via the local telecom network into the home, with optic fibre technology [show] increasingly showing its cost effective paces. Regulation currently disallows this. Here is a further policy option, which Alastair MacDonald's committee at the DTI is pondering in relation to changes in telecomms infrastructure over the next 20 years.

Thank you for your attention. I have set out to show that today's television technology, if you are prepared to see its commercial exploitation, is no obstacle to - indeed aids and abets - satcha'lism.



Sources:

Deregulation of the Radio Spectrum in the UK, HMSO, 1987

Screen Digest

UK Cable Authority

CIT Research Ltd

Astra and BSB, for their 1995 market projections.

DTI

JICCAR

21 September 1987

David Graham: Downing Street Seminar. 21st September 1987

This gist of my remarks is that competition is not synonymous with new technology. I am interested in production or the supply side of television. It is not good enough to rely on potential new technologies to encourage competition. New technologies may happen some time. We need the competition now. New technologies offer grand new strategic opportunities, but we don't know if people want them.

I have been told by many senior people in the BBC and ITV that they don't have enough of some very important products. They don't have enough good contemporary narrative drama. They don't have enough good popular comedy. I was told by a senior BBC executive that that was because, in his words, "television is run by snobs". I think what he meant by that rather crude statement is that our system currently puts a high value on other products than these. It values, if you like, the high-cultural end of the product. These popular products are extremely important.

If you go to our comedy departments you find they are old, the top management probably isn't very interested, that writers are underpaid, that production methods are out of date. If you go to the USA you find that many, many pilots are made, that large teams of writers are employed, that long runs are produced, that many different companies compete to make these programmes for the American networks. There are over 50 independent companies making such series for the networks. The difference between the two is competition. And competition is the key to the reform of our industry.

The reason I'm not saying much about new distribution technology is that it is not much good having a lot of channels if you have not got good material, or British material to supply them with. In everything to do with competition, terrestrial television is still paramount.

If you take competition very seriously then these are the kind of solutions that go on the agenda. I am offering them against the background of the Peacock recommendations. In particular I fully support the idea that in future public service programmes should be financed from one single source or pool of income, releasing other channels to compete commercially with each other. First we should get rid of what Sir Alan Peacock calls vertical integration. We want companies encouraging competition for the supply of programmes and we want programme makers to encourage competition among those who provide facilities or services. Second we want real competition between the mass audience channels. At the moment that's masked by the fact that they both have public service responsibilities and that our two channels get used to each other, and to a ritualised competition that is mainly defensive. Third, we should certainly consider auctioning franchises,

encouraging new organisations to come up with even more efficient ways of making uses of the wavelength. Fourth, we should get rid of discretionary content regulation and put television under the law of the land. Discretionary regulation masks competition.

There are two exceptions or constraints on the market that should be imposed; first we need to preserve the entry points for new small audience programmes and we need to keep the public service function. That meets two points in the Peacock analysis: first, there is a scarcity of spectrum and still will be for a while which means that the new innovative product can't enter easily and there are programmes that we as tax payers may want, but we as consumers do not bring into being.

We could advance on these fronts by pushing forward 25% in the provision of programmes from outside the vertically integrated companies. Government should state a clear preference for slim line publishing-only operations at the next franchise round. We should remove most public service obligations from BBC & ITV1 as soon as possible. We could consider the idea of reviving advertising on BBC1. And we could encourage local television on a town radius of about 30Km. Although other people have different ideas about this network my suggestion is for a network offering syndicated programmes and local news. I think there is a strong unsatisfied demand for local advertising.

What about the particular institutions within our constellated system? The BBC has a problem in that it will be allocating licence payers money to popular programmes. It seems philosophically more acceptable to me that the indexed fee that is to become the BBC's pool of income should eventually become the pool that supplies public service broadcasting and that BBC1 should find alternative sources of finance. BBC1 feels to me like an advertiser supported channel and not like a subscription channel. As I have already suggested, it would help BBC1 in a competitive sense if it was divested of most of its public service duties and if it expanded its purchase of programmes from third parties.

ITV has big structural problems based on some underlying assumptions that are questionable and an inefficient production structure. ITV's production arrangements are rather artificial. They assume that we want to spread national production, the production of national programmes throughout the country. This does not apply in other industries. We don't as a matter of course think it a good thing to spread the textile industry or the car industry around the British Isles. I am not of course talking about local productions. The regions themselves have no clear identity. With the exception of Scotland, people consider themselves as living in towns or possibly counties, not ITV regions. To support this artificial structure a programme cartel has arisen which is an undesirable way of supplying programmes to the networks. However, the regions may be about the right size for the purchase of blocks of advertising by advertiser. The truth is that ITV is about popular television nationwide. Competition would be increased if it abandoned

most of its public service broadcasting responsibilities and if some regional responsibilities were taken up by public service function. Productions should of course go out of house as soon as possible because its own production practices are inefficient.

Channel Four is a more complicated institution. At the moment it offers some big benefits in the competition sense. It is a sponsor of nearly all the independent production that is currently taking place. It is also an entry point for new small audience products. It is the only reliable window, as far as I can see, for genuine entrepreneurial innovation in the television industry. In my view the competitive sale of advertising on Channel Four would drive it to the mass audience. The reason for this is that although, advertisers say they are very anxious to reach Channel Four's young upwardly mobile profile, I don't believe them. Upwardly mobile people are very difficult to reach in a television audience and I am sure that what the advertisers want, first, is another mass audience channel. Another mass audience channel would be a tonic for the system but it would have the disadvantage of transforming Channel Four. That would lose the entry point for small audience product, and push Channel Four away from its remit to which the Government still adheres. It would also undermine an unusual and much praised channel just at the point it is developing its profile. It would be much less problematic to sell advertising on BBC1 or conduct a Channel Four experiment. Channel Four could sell advertising under some kind of trust obligation to its remit, though the shortfall in advertising revenue would have to be met somewhere else if sales were not enough to meet production costs. With the developing sell-through market, increasing opportunities to get your product direct to consumers, Channel Four will one day lose its competition advantages and would then have to survive as a distinctive channel in its own right financed by advertising or subscription some time after 1993.

So the scenario that I am offering for the mid-90's is this. Two strong popular terrestrial channels competing with each other, and perhaps a terrestrial local network, all selling advertising. A distinctive Channel Four, financed by subscription or advertising. A strong well-funded public service broadcasting channel. And new channels forming an array around these.

I fear that government may take another option which would limit competition in order to earmark a pool of advertising revenue for a newcomer using new distribution technology, thereby limiting competition on the ground. This would have the danger of leaving ITV as a dominant seller of mass audience advertising against weak competition, and it would leave the BBC in an anomalous position, half a popular channel - half a public service channel, with competition for the money between these two functions. Such a decision would also delay reforms in the production sector which are so badly needed. My suggestions would allow new channels to find their place, providing added value within the system based on a strong domestic production base. Competition is the torque that drives the motor. Only competition will

reinvigorate our production base and turn us into a world leader in the products that really count. Without excellent popular programme productions we are not in international television industry.

The present negotiations between the independents and the ITCA represent the future colliding with the present. Two things matter a lot to us, we need to preserve the ownership of our intellectual property and we need to preserve the freedom to reach our own agreements with our own employees. Above all we are concerned that we develop into a proper sector and not just a bunch of freelances.



JEREMY ISAACS (CHIEF EXECUTIVE)

24th September 1987

David Norgrove,  
Secretary to the Prime Minister,  
10 Downing Street,  
London. SW1A 2AA

Dear Mr. Norgrove,

I said I would let you have a note giving my personal view on the question of whether or not it is beneficial to change the status of Channel Four and the structure that underpins it. Here, in brief, it is.

I am sending this also to the Home Secretary.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jeremy Isaacs', with a stylized flourish at the end.

Jeremy Isaacs

## A Changed Status for Channel Four?

I am grateful to the Prime Minister, and this government, for the legislation that set up Channel Four.

We are asked to be different. It is by being different, at least some of the time, that we add to viewers' choice.

If we had started entirely on our own, instead of being funded out of ITV's revenue, we could not have come this far. We would have been forced to find viewers in a hurry to pay the bills. Our remit would have gone out the window.

We still like things the way they are. If it is decided that other services, now on their way, are deemed to be sufficient competition to ITV, and Channel Four stays as it is, that suits us fine.

But if it is decided to separate Channel Four from ITV, we are ready for independence, provided that we are asked to continue the service we now give, and that our ability to do so is safeguarded.

We do not want to compete flat out with ITV; if we did, we would cease to be Channel Four. If we sell our own advertising, the pressures on the remit will be considerable.

The big advertisers, who argued for advertising on BBC1, would press us to go for bigger audiences to bring down the price of airtime.

Shareholders, if we float, will press us to maximise profit.

The Channel's programme chief would also be tempted to take less risks in programming, in case it affected next year's income, and next year's programme spend.

These are formidable pressures, which undoubtedly put the remit at risk.

Certainly, neither the Board of Channel Four nor the staff will wish it to be separated from ITV, unless safeguards can be put in place. That is not impossible; but not easy either.

A half-way house would be for us to sell our own air-time, without a change of ownership. That would guarantee the remit, while we found our feet, and give us a head start on other, future, competitors.

But, less than five years since we started, the case for immediate drastic change has not been made out.

Jeremy Isaacs





10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	01 OCT 1987
ACTION	MR BURR
COPIES TO	CST FST RM & EST SIR R. MIDDLETON MR FER BUTLER MR ANSON MR BURGNER MR GILMORE MR SPACKMAN MR CAVE MR KAYMAN MRS PUGH MR COPPIN MR THIRIE

NO 10  
TO  
HOME  
OFFICE  
1/10

*RE Mr FOSTER'S  
(iv), I feel sure  
enough for a  
without I will have  
I will have  
with him -*

From the Private Secretary

1 October 1987

Dear Philip,

**TIMETABLE FOR BROADCASTING LEGISLATION**

The Prime Minister has been reflecting on the timetable for the proposed Broadcasting White Paper and legislation. She is concerned that the Government may be trying to compress too much into too short a time.

The present plan is to publish a White Paper at the turn of the year and to legislate in the next Session, 1988-89. However this means that decisions will have to be taken in the busy period leading up to Christmas. The results of the BBC, IBA and DTI study of the possibilities for MMDS and Channel 5 will not be known for ten weeks or so. It will also be difficult on this timetable to take into account the results of the studies commissioned from consultants on the Peacock recommendations which bear on telecommunications policy. Yet changes to the ITV system, including the levy, cannot take effect until 1 January 1993. It is also relevant that on the present timetable legislation will be going through the House just as Astra is beginning to have its effect on British television.

Against this background the Prime Minister would be grateful if the Home Secretary and the Secretary of State for Trade and Industry could prepare a paper on the timetable and options, for consideration at the next meeting of MISC 128. One option, for example, might be to publish the White Paper around Easter next year, to legislate on the Broadcasting Council, radio, and other more minor matters, in the 1988-89 Session and to follow with the remainder of the legislation in the Session 1989-90. This would allow the final decisions on television broadcasting to be taken in late 1988 and early 1989. Alternatively, all the legislation could be taken in the 1989-90 Session, provided that the Broadcasting Council and other safeguards on standards could operate satisfactorily in the meanwhile without formal statutory backing. Either of these options would have the incidental advantage of transferring substantial legislation from the second to the third Session of Parliament, which is likely to be the lighter of the two.

In view of the Manifesto commitments and the importance of the legislation, any postponement will of course need to be considered with great care.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Trevor Woolley (Cabinet Office).

*Yours,  
David.*

DAVID NORGROVE

Philip Mawer, Esq.,  
Home Office.

BIF  
12/9/10



FROM: CATHY RYDING  
DATE: 5 October 1987

MR GILMORE

**PRIME MINISTER'S SEMINAR ON BROADCASTING**

The Chancellor has seen David Norgrove's letter to Mike Eland of 25 September covering the record of the Prime Minister's Seminar on Broadcasting. The Chancellor would be grateful for any points you have over and above those you discussed when you met post-Seminar.

A handwritten signature in cursive script, appearing to read "CR".

CATHY RYDING

FROM: B T GILMORE

DATE: 8 October 1987

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Mr Burgner
- Mr Burr
- Mr G M White
- Mr Kaufmann
- Mrs Pugh
- Mr Cave
- Mr Tyrie

*Thank.*  
*Happy.*  
*I have with a committee*  
*of you with a committee*  
*Mudgworthy, it is clear*  
*Mr Pugh, Mr Cave*  
*Mr Anson, Mr Burr*  
*Mr G M White*  
*Mr Kaufmann*  
*Mrs Pugh*  
*Mr Cave*  
*Mr Tyrie*  
*to Mr Pugh (Mr Pugh) to me*  
*to Mr Pugh (Mr Pugh) to me*  
*to Mr Pugh (Mr Pugh) to me*  
*to Mr Pugh (Mr Pugh) to me*  
*to Mr Pugh (Mr Pugh) to me*

**BROADCASTING**

You asked if I had any further points now that the record of the Prime Minister's seminar has been circulated. It may be timely to summarise the state of play and what I see as the main policy issues ahead.

2. The record shows the high level of consensus on which you commented - that there is no longer a problem of spectrum scarcity nor any immediate financing constraint, and that the way ahead lies in open competition between new services combined with 'loosening up' the established duopoly. No doubt there will be plenty of arguments ahead, manoeuvring for commercial advantage and defending privilege, but they will be against this new view of the technical and economic opportunities. But there are two important areas where the record does not show the same sort of consensus. On regulation the record is bitty and indeterminate. And underneath the references to 'loosening up' the established duopoly there is an important difference of view about the position of public service broadcasting in a more open market. Some clearly go for changes in the boundaries and role of the duopoly (Peacock for the provision of public service broadcasting through a funding body only, Hooper for a single public service channel), while others are thinking in terms of leaving the four channels their existing boundaries and role, concentrating (through independent production etc.) on their internal efficiency.

*attached*

3. In the light of this seminar, the minutes of MISC 128 on 29 September read surprisingly cautiously. The Financial Secretary will be able to correct or add to this: but I get a sense that the two Secretaries of State are distinctly

cautious about the possibility of new services and the effects of competition. That in itself may not be significant (the minutes of the main item begin with 'The Prime Minister, summing up a brief discussion....'). But I also have a sense from their officials that they are indeed feeling both cautious and protective of the boundaries and role of the existing duopoly.

4. In these circumstances, the direction and pace of change will mainly be determined by:

- a. real world developments, notably the consumer response to satellite broadcasting;
- b. the extent to which the Government opens up competition between new services, or protects some;
- c. the extent to which future regulation is paternalistic (BBC/IBA) or detached (Cable Authority/the law);
- d. the effect on new entrants of the market strengths of the duopoly (delivering four channels of familiar television, free at the point of consumption, and owning all the archive material).

5. The first three are proceeding, and I do not at present foresee difficult issues within Whitehall. The difficult decisions are likely to arise on the fourth, probably centring on a fifth channel and on the future role and scope of the duopoly.

### Spectrum

6. There is keen commercial interest in a fifth channel, and the industry seems willing to accept it. But it takes us into the allocation of the spectrum. On this, as on subscription, there is a 'Jonscher report'. On the spectrum his theme is that the present system of allocation/regulation is economically inefficient, and he suggests ways of managing it more at arm's length to secure more benefit from it. The Government's policy is to be considered by an interdepartmental group, one inevitable but unpromising feature of which is that - apart from ourselves and OFTEL - it represents the existing managers and beneficiaries. That said, the managers themselves (in DTI) seem to accept the case for improving the efficiency of spectrum management, and so long as the

iss~~ue~~ is processed through E(CP) - as intended - we should be able to achieve that. If so, it is likely to make space for a fifth channel, though on the extreme arm's length policy - auctioning spectrum - that would of course turn on what the broadcasters would pay for it.

7. Apart from the allocation of spectrum to broadcasting, there is also a question of the use that can be got out of the spectrum already available for broadcasting. This is particularly important because new channels from the available spectrum require no new equipment. Relating spectrum channels to channels of broadcasting is a complex and judgemental matter, but Jonscher argues that to get 4 out of 44 (as we do) is prima facie inefficient. It certainly has the feel of Rolls Royce engineering. This reinforces our view that the right approach for Ministers is to make a fifth (and sixth?) channel a requirement of spectrum planning rather than to ask whether it is there. (Incidentally, we will keep in touch with Jonscher himself because of his independent expertise on this sort of issue; he has, ~~incidentally~~<sup>also</sup>, offered to brief Treasury Ministers at any stage if you wish).

#### The Duopoly

8. The question of the role and boundaries of the duopoly, on the other hand, has not yet been opened up. A main difficulty in posing the issue is that, historically, public service broadcasting has come to be defined by its institutions, rather than by what it does or why it does it. There are criteria at a high level of abstraction (universality; programmes of a high general standard with a balance of information, education and entertainment), and the principle of operation at arm's length from government. Beyond that, however, it is difficult to find a more operational definition of 'public service broadcasting' than 'what the BBC and IBA broadcast'.

9. Although Peacock proposes a radically different approach (public service broadcasting is "what the citizen will pay for as a voter and tax-payer though not as a consumer"), the time is probably not ripe to attempt the major task of redefining public service broadcasting. The problem is that this may itself be a major barrier to entry. It might be eased by further initiatives on restrictive practices. (Preference for non-producers in the next franchise round? Open access to archive material?). But it seems to us that it would also reduce these barriers, thus moving towards greater competition and a stronger position for the consumer, ~~would be for~~<sup>if</sup> the BBC and the ITV companies were to finance

some of their programmes by subscription (with a corresponding reduction of the licence fee), and some air-time from the four channels were allocated to new ventures by others. It is also relevant that, if services multiply, the licence fee itself may have a shorter life left than has been assumed hitherto. Instead of a cheap fee for home entertainment it may come to be seen as an unnecessary tax on equipment. And the development of a healthy market in broadcasting will provide alternative revenue for whatever public service broadcasting needs to be publicly funded (whether by Peacock's mechanism of an "Arts Council of the Air" or by some less elegant means)

#### Next Steps

10. The next meetings of MISC 128 are to be on 28 October (to consider the future timetable, including the possibility of two Broadcasting Bills; and the future of Channel 4 and ITN), and 11 November (to consider subscription).

11. Procedurally, the key to making progress towards a healthy broadcasting market seems to be to write the principles of open entry and competition into the White Paper (the right timing of which now looks like the Spring, so that it is not over-shadowed by telecommunications policy), together with a full account of the Government's proposals to that end. We see no need for you to intervene formally before the next MISC meetings. Informally, however, you might find it useful to go over the two key issues of spectrum efficiency and the role and boundaries of the duopoly with the two Secretaries of State, perhaps in the sort of resumed meeting between the three of you which the Home Secretary has suggested.



B.T GILMORE



FROM: CATHY RYDING  
DATE: 12 October 1987

MR GILMORE

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Burgner  
Mr Burr  
Mr G M White  
Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Tyrie

### **BROADCASTING**

The Chancellor was grateful for your minute of 8 October which he found helpful.

2. The Chancellor was pleased to note your comment in paragraph 7 that Jonscher has offered to brief Treasury Ministers. On your paragraph 9, the Chancellor agrees with your suggestion of preference for non-producers in the next franchise round. The Chancellor also agrees with your suggestion in paragraph 11 that it might be useful to go over the two key issues of spectrum efficiency and the role and boundaries of the duopoly with Mr Hurd and Lord Young.

3. More generally, the Chancellor has commented that it is clear that paragraph 3 of your minute is correct, and it will therefore fall to the Treasury and (in particular) to him to see that this excessive caution is overcome. At some stage he may need to minute out on this.

A handwritten signature in cursive script, appearing to read 'CR'.

CATHY RYDING





FROM: FINANCIAL SECRETARY  
DATE: 14 October 1987

CHANCELLOR

cc Chief Secretary  
Sir P Middleton  
Mr Gilmore  
Mr Tyrie

BROADCASTING

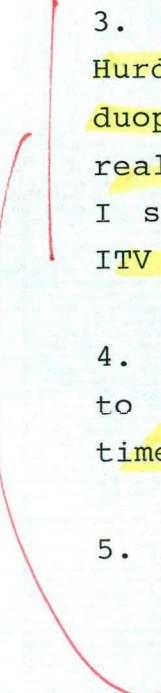
1. I am not convinced we are moving nearly fast enough on opening up the duopoly and introducing an element of subscription. The conclusions of MISC 128 as they stand do nothing to remove the duopoly and offer little prospect of progress. Surely we ought to be chipping away at it now? Without such a strategy I do not see how new services have a chance.

2. Mr Gilmore's minute of 8 October 1987 suggested, that I might be able to put a gloss on the MISC 128 minutes.

3. At the meeting it was true that David Young and Douglas Hurd were cautious and protective about the role of the existing duopoly. I argued that we should begin to erode this now if real competition over the next decade or so is to take root. I suggested that a start might be made by getting the BBC and ITV companies to sell marginal air-time.

4. At first, the Prime Minister supported this but later seemed to think this meant new companies might begin to broadcast at times when there were no programmes on the four main channels.

5. Surely we should be much more radical?



*The first tells me  
that we should be  
more radical  
than we are  
now  
PST  
New to  
have with positive  
response.*

NORMAN LAMONT

MR BURR

FROM: B T GILMORE  
DATE: 19 October 1987  
cc Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Tyrie  
PS/Chancellor

GILMORE  
To  
BURR  
19/10

**INDEPENDENT PRODUCTION INITIATIVE**

The Home Secretary's report on his dealings with the BBC and IBA (minute of 16 October to the Prime Minister) is likely to be de facto on the agenda of the MISC 128 meeting on 28 October to consider outstanding issues on the ITV system as it now is. I should be grateful if Mrs Pugh and Mr Kerley would look at the fine print of what is said to have been agreed. I see, for instance, that the BBC are still talking about proportions "commissioned", not proportions "broadcast". Subject to any serious doubts on that score, the conclusions in paragraphs 9 and 10 look reasonable.



B T GILMORE

CONFIDENTIAL

FROM: B T GILMORE

DATE: 26 October 1987

1. FINANCIAL SECRETARY
2. CHANCELLOR

Note attached  
9.11.26/10.

cc Chief Secretary  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Burgner  
Mr Burr  
Mr G M White  
Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Tyrie

**BROADCASTING**

I understand that you have asked about the likely speed of progress on liberalisation of broadcasting.

2. I attach a timetable.

The Two Trends

3. Developments since my submission on 8 October have tended to confirm the view it contains, both of the main features of the present situation and of the main issues ahead for the Treasury in encouraging the development of a plural, efficient, internationally competitive broadcasting industry. Outside government, people are preparing for a more competitive world. The Prime Minister's seminar has stimulated this; certainly, for instance, Mr Jonscher was struck by the fact that all her interventions were impatient with the established order and encouraging to the innovators. The BBC are responding to the revenue constraints implied by the RPI-linked licence fee (the ITV system has as yet no such constraint to take account of). Inside government, however, I sense a reaction since the Prime Minister's seminar - cautious, and in particular protective of the duopoly in its familiar form.

4. This protective mood is at Ministerial, not official level.

For instance, in the last week we have persuaded officials in other departments to include options for increased competition in the paper commissioned about the ITN, and to include the question of diminishing the market dominance of the duopoly in the further work generally (starting with the question of subscription which is to come to MISC 128 on 19 November). But officials clearly now believe that Ministers are hostile to these possibilities; not only Lord Whitelaw, Lord Young and Mr Hurd but - paradoxically perhaps - the Prime Minister. Typical of this new mood is the reason given for commissioning work on ITN from the last MISC 128 meeting, namely that the decision to move to a more competitive regime for the next round of franchises for the whole ITV system might have to be reversed if it would lead to adverse consequences for ITN ("adverse consequences" in this case meaning improved cost-consciousness).

### The Entry Problem

5. One could take the view that this caution does not matter, because the competitive market will come anyway. My own view is the reverse: I believe that it does matter, because the duopoly as we have it may be sufficiently dominant to prevent new entrants, and to restrict the emergence of a competitive market in broadcasting except on its own terms.

6. BBC and ITV have the monopoly of available air-time on the present spectrum. With it they can provide the only television capable of being received by existing equipment. Their funding enables them to provide full and varied services free at the point of consumption. They have the advantages of familiarity. They own all archive material (provided, in the case of the BBC, from past licence revenue). Against this, new entrants would in varying degrees have to meet initial capital investment, and persuade viewers to buy new equipment (except for a fifth UHF channel). And in terms of market competition it is an important strength that the duopolists can put their advantages to tactical use because the habit of regarding "public service broadcasting" as being "whatever the BBC and IBA broadcast" would leave them free to adjust their own efforts to counter competition before it can get established.

7. The picture is not entirely one-sided of course. New entrants will be able to select their audiences in a way the duopoly cannot entirely do. Greater competition in advertising will constrain ITV's revenues. VCRs have shown that people will pay extra for some things. But I do myself believe that the duopoly may be sufficiently strong as it stands to frustrate the development of a plural, competitive broadcasting market (and thus an internationally competitive broadcasting industry), not by competing effectively on quality and price (which would be welcome - and cannot of course be ruled out), but because it is able to frustrate entry in the first place. Indeed I think there are already signs of this happening - for instance, the way ITV has filled the night hours on Channel 3 as soon as Jonscher recommended that they could be used for a first entry into subscription; the way the BBC reckons to raise new revenue from the archive material derived from the licence fee. This is the factor which makes it important to start now to open up such possibilities as introducing subscription into the duopoly and taking air time away from them at the margin. We need to start now if there is to be any possibility of (for instance) reducing the BBC license fee at the next review (the RPI settlement runs to April 1991), or giving possible new entrants on the ITV side good notice to gear up for non-producer bids when the new franchises are tendered in 1991.

#### The Role of Public Broadcasting

8. I should mention also (and I know Mr Tyrie has been particularly concerned about this) Peacock's longer run question about the proper role of public funding of broadcasting in a world in which the general run of broadcasting needs are met by a market. For my own part I am persuaded by Peacock's view, first that there is likely to be a residual function for "broadcasting which the citizen is willing to pay for as voter and tax-payer but not as consumer"; and second, that this will best be provided by an "Arts Council of the Air" funding particular programmes rather than particular organisations or channels. At some stage this will become an acutely difficult issue, because it involves a step change in thinking from the present assumption that "public service broadcasting" is whatever the BBC and IBA regulate. I do not, however, see that as the immediate

issue (except to the extent that the tactical freedom of the duopoly to use their advantages is part of the entry problem).

### Next Steps

9. As to what we do, the Chancellor has noted that he may have to minute out at some stage. I doubt if the time is ripe for that yet: it needs to be on a specific issue to have an impact. The next two MISC 128 meetings, however, may be particularly important. That on 28 October will take timing, the ITV franchises, Channel 4 and ITN. This will give a much better idea of the mood. And that on 19 November will take subscription, which looks like being the first real test of willingness to trim the duopoly. We are of course working to ensure that the analysis for these meetings is satisfactory, and will brief on the proposals as we have them. But it looks to me as if at least an informal meeting with Mr Hurd and Lord Young may well be indicated in between them - in the light of the first and to prepare for the second. That may indeed be the occasion to consider minuting out to clarify the Government's objectives and what they mean for the issues ahead.

  
E.T. GILMORE

## BROADCASTING

## TIMETABLE OF EVENTS

	3 July 86	Peacock Report published
	14 Jan 87	Announcement on licence fee matters/independent productions
	25 Feb 87	Green Paper on Radio published
	10 July 87	DBS contract awarded to British Satellite Broadcasting (BSB)
<hr/>		
	<u>1988</u>	
	Spring	Proposed White Paper
	1 April	Introduction of indexed licence fee for 3 years.
	Autumn	"Astra" medium-powered satellite expected to begin broadcasting from Luxembourg
		Introduction of proposed Broadcasting Bill.
	<u>1989</u>	
	Autumn	BSB begins broadcasting
		Earliest technical feasibility of MMDS?
		Introduction of second proposed Broadcasting Bill.
	<u>1990</u>	
	1 Jan	ITV contracts extended for 3 years.
	Autumn	New BBC licence fee to be set.
	<u>1991</u>	
	Early	IBA advertises new ITV contracts from 1 Jan 1993
	1 April	New BBC licence fee comes into effect
		Target date for independent productions to reach 25 per cent.
	Autumn	New ITV contracts signed, to run from 1 Jan 1993
	<u>1992</u>	
	Autumn	Remaining 2 DBS channels free to be allocated.
	<u>1993</u>	
	1 Jan	New ITV contracts come into effect
	<u>2002</u>	
	Autumn	DBS contract expires for BSB

CONFIDENTIAL



FROM: FINANCIAL SECRETARY

DATE: 26 October 1987

CHANCELLOR

*Mr. [unclear] [unclear] X  
I will [unclear] [unclear]  
Wh. [unclear] [unclear]  
[unclear] [unclear] [unclear] [unclear]*

- cc: Chief Secretary
- Sir P Middleton
- Mr F E R Butler
- Mr Anson
- Mr Burgner
- Mr Gilmore
- Mr Burr
- Mr G M White
- Mr Kaufmann
- Mrs Pugh
- Mr Cave
- Mr Tyrie

BROADCASTING

You will recall that we discussed this question at Prayers last week.

2. I felt that colleagues were being a little protective of the duopoly. This is borne out by Mr Gilmore's minute below with which I agree.

*g.m*

NORMAN LAMONT



CONFIDENTIAL

FROM: B T GILMORE

DATE: 27 October 1987

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Mr F E R Butler  
 Mr Anson  
 Mr Monck  
 Mr Burgner  
 Mr Spackam  
 Mr Burr  
 Mr Waller  
 Mr G M White  
 Mr Kaufmann  
 Mrs Pugh  
 Mr Cave  
 Mr Call  
 Mr Tyrie

## REFORM OF THE ITV SYSTEM

## BRIEF ON MISC 128(87)12

In this paper the Home Secretary summarises his proposals for the reform of the ITV system, referring to supporting detailed papers on the three particular issues. This steering brief summarises my recommendations on the three issues; detailed briefing (including a "Line to Take") is provided separately on each of the detailed supporting papers.

## ITN

2. The Home Secretary proposes:

- a. to retain Section 22 of the 1981 Act;
- b. not to put the provision of news to competitive tender;
- c. to allow new shareholders in ITN, but preserving a majority for the ITV companies (option a of the paper by officials).

He comments that if colleagues wanted to go further to make ITV generally more cost-conscious and efficient, the ITV companies could

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also be untied from ITN (option e in the officials' paper).

3. You can accept that Section 22 should be retained, and that the news contract for the ITV system should not be put to competitive tender. But I recommend that you should question the need for, or desirability of, bringing in additional shareholders. We frankly doubt it will do much for cost-consciousness and efficiency (as the Home Secretary claims) while ITN continues to occupy such a privileged monopoly position. But the main thing here is that I recommend you press for option e, untying the ITV companies from ITN, as the one option which should make a modest contribution to cost-consciousness and efficiency. Professor Griffiths will brief the Prime Minister in the same sense.

#### **Competitive Tender and the Levy**

4. The Home Secretary proposes detailed arrangements for a combination of competitive tender and a levy based on revenue rather than profits, which has already been approved in principle. I recommend that you support him.

5. He also proposes severe restrictions on anyone having an interest in more than one ITV contract. His proposal to the last MISC 128 was that no-one should have more than two contracts. The Treasury interest lies in vigorous competition for individual contracts. This could be inhibited by too severe a restriction. It is a matter of judgement, but on balance I recommend that you argue that his original proposal (no-one to have more than two) adequately protects the consumer interest in diversity, and that this new proposal may unnecessarily inhibit vigorous competition for individual franchises.

#### **Channel 4 (C4)**

6. The Home Secretary makes a new proposal, that C4 advertising should be sold by an independent agency, but that C4 should continue to be funded non-competitively from ~~Net~~ Advertising Revenue (NAR) and separated from the IBA as a broadcasting authority in its own right.

7. This does nothing to promote the objective of efficiency, and I recommend that you continue to press for the distinctive programming remit of C4 to be put to competitive tender alongside the basic ITV

franchises. Professor Griffiths will advise the Prime Minister in  
the same sense.



B T GILMORE

Channel 4



CONFIDENTIAL

CHANCELLOR

FROM: B T GILMORE

DATE: 27 October 1987

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Spackman  
Mr Burr  
Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Call  
Mr Tyrie

**FUTURE OF CHANNEL 4 (C4)****BRIEF ON MISC 128(87)9**

The Home Secretary makes a new proposal for the future of C4. He maintains his previous preference for it to be established as a separate broadcasting authority from the IBA. As to funding, however, in place of his previous proposal that it should sell its own advertising, he now proposes that an independent body should sell its advertising, and that C4 should continue to be funded by a set amount of the total advertising revenue raised for ITV programmes and for C4, so as to avoid competition for revenue between them.

2. The line you take on this will depend on your own judgement of the key question whether competing for advertising revenue will take Channel 4 "downmarket", reducing the range of programmes available to the consumer. The Home Secretary believes that, although the distinctive programme remit of Channel 4 gives it enough advertising revenue, the fact that even more revenue could be taken from switching to the sort of programming the ITV companies offer would mean that if Channel 4 had to compete for its revenue it would be taken downmarket, and (presumably) that the IBA would be powerless to prevent that. If you agree with that judgement you can accept his present proposal.

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3. My own view is that the risk is exaggerated. The requirement to offer complementary programming can be incorporated in Channel 4's contracts and policed by the IBA in the same way that it will police other ITV contractors. Channel 4 may also be content to broadcast to its present audience which, though comprising a succession of "minorities", spends highly on consumer goods. Moreover, giving Channel 4 independence is a significant move towards a more competitive broadcasting system. Thus I recommend that you should argue for Channel 4 to be the subject of competitive tender from 1993 on the basis of its present distinctive programme remit.

#### Points to Make

*Channel 4*

4. The main points to make are:

- This proposal deals with the limited question of a lack of competition in advertising, but not with the basic issue of developing cost-consciousness and efficiency in broadcasting, particularly in production.
- Continuing with protected revenues will tend to allow restrictive practices and high costs to develop even in a new independent production sector. It will lose the opportunities that lie ahead if we can achieve an internationally competitive broadcasting industry.
- The distinctive remit of C4 need not be threatened. Competition will be beneficial so long as the contract clearly sets out the kind of service which is wanted, and the IBA police both contractors' proposals and the successful contractor's performance. These are exactly the safeguards which are proposed for competitive tendering of ITV contracts generally. It is defeatist to suppose the IBA could not make them work also for C4.
- Adequate revenues to sustain the remit are available from advertising to the distinctive, high-spending audiences at which C4 is aimed.

- If IBA cannot be relied upon to police this remit, what confidence can be placed in the proposal to make C4 a separate broadcasting authority - which means it would have no regulation but its own?

### Discussion

5. This proposal is the Secretary of State's own; it has not been considered between officials.

6. The options considered at the last MISC 128 meeting were

- for C4 to be a separate broadcasting authority selling its own advertising (Mr Hurd's then preference);
- for the existing C4 management to be confirmed in a franchise in which shares would be sold;
- for the distinctive C4 remit to be offered for competitive tender along with the other ITV franchises.

MISC 128 were concerned about the risk of C4 going "down-market".

7. The Home Secretary's new proposal has three elements, which can be considered separately:

- a. independent sale of C4 advertising;
- b. non-competitive funding from Net Advertising Revenue (NAR);
- c. C4 to become a separate broadcasting authority.

8. The relative merits of these options are considered in the attached note, against the objectives of preserving the programme remit; improving efficiency of programme production; and reducing unfair practices in selling advertising time. The conclusions are that the independent sale of C4 advertising would improve on present advertising arrangements, but that these new proposals would do nothing

to improve efficiency. Which option to pursue then turns on one's judgment whether this defect is outweighed by the risk that competing for its own revenue, which would make C4 more cost-conscious, would also take it down-market in a way which the IBA could not prevent.

9. Mr Hurd is particularly concerned to reduce what he regards as the excessive power of the IBA, and this lies behind his proposal to make C4 a separate broadcasting authority. But if Ministers are concerned to maintain the distinctive remit which is required of C4 as a condition of its privileged use of the spectrum, it is hardly reassuring to contemplate it having to satisfy no regulator but itself.

#### Views of others

10. The Prime Minister will be briefed in the same sense as this minute. We do not know Lord Young's views, but it seems likely that he will support Mr Hurd, and that Lord Whitelaw may even argue that Channel 4 should simply be left as it is.



B T GILMORE



## ANNEX

**FUTURE CONSTITUTION OF CHANNEL FOUR**

Different proposals for reconstituting Channel Four (C4) might be assessed according to their impact on a) incentives to respond to consumer preferences; b) incentives for efficient, low-cost production; and c) potential for reducing unfair practices in selling advertising time. (Competition in selling advertising time is unlikely to reduce rates charged, because with a fixed supply of advertising time lower prices reduce rather than increase profits). It is assumed that, for C4 responding to consumer preferences involves broadcasting programmes which are complementary to ITV's, innovative and appealing to minority tastes.

2. The new Home Office proposal involves -

- a) setting up an independent agency to sell C4's advertising time;
- b) setting C4's income at a fixed percentage of total NAR (as at present);
- c) establishing C4 as a separate broadcasting authority.

3. An independent agency seems a good idea so far as it goes: competition with ITV sales would reduce unfair practices and an agency paid at least in part by percentage commissions would have little incentive to continue with the present underpricing of C4 advertising spots. All this would be achieved without reducing C4's incentive to broadcast complementary etc programmes.

4. If C4 does not sell its own advertising time then it would be sensible to continue to set C4's income as a percentage of ITV and Channel Four NAR. However, the Home Office assume that the percentage would apply to pre-levy NAR. If the new revenue levy rates are

progressive rather than proportional, Channel Four's income would grow more rapidly than ITV's and, if NAR is buoyant, more rapidly than expected increases in programme costs (for a given level of quality). We have put to the Home Office a technical amendment to improve this.

5. To make C4 a separate broadcasting authority seems less attractive. It might reduce rather than improve incentives to broadcast complementary programmes. And with only one management to regulate, the authority may be less likely to take an independent view of the quality of its programming. At the least, the Home Office argument for reducing IBA's "monopoly" over ITV regulation needs spelling out in terms of its detrimental effects.

6. Annex I attached compares the impact of the new proposal and the previous suggestion on the three criteria posed above. The key issue is whether improved incentives for efficiency in C and D would offset the arguable risk of adverse effect on programme quality.

## OPTIONS FOR RECONSTITUTING CHANNEL FOUR: COMPARISON WITH PRESENT ARRANGEMENTS

		Effect on incentives for supplying programmes of the required quality	Effect on incentives for efficiency in programme production	Effect on restrictive practices for selling advertising time
A	Independent agency	-	-	*
B	Channel Four sells its own advertising time but remains in public sector	x?	-/x <sup>(1)</sup>	*
C	Privatise, retain existing management	x?	*	*
D	Privatise but sell contract by competitive tender, as for ITV	x?	*	*
E	Channel Four as a separate broadcasting authority (could be combined with A or B; C or D would imply regulation by IBA or some other regulatory body)	?	-	-

- no change

x adverse effect

\* favourable effect

(1) Effect could be adverse if resulted in more buoyant Channel Four income and hence less pressure to control costs

CONFIDENTIAL

FROM: B T GILMORE

DATE: 27 October 1987

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Mr F E R Butler  
 Mr Anson  
 Mr Monck  
 Mr Burgner  
 Mr Spackman  
 Mr Burr  
 Mr Kaufmann  
 Mrs Pugh  
 Mr Cave  
 Mr Call  
 Mr Tyrie

**CONSTITUTION OF INDEPENDENT TELEVISION NEWS (ITN)**

**BRIEF ON MISC 128(87)11**

This paper from the official group discusses five possible changes in the constitution or position of ITN. The first three would bring in new shareholders in addition to the ITV companies who now jointly own ITN. The fourth would invite competitive tenders for the provision of a news service to the ITV system alongside other competitive tenders for the ITV franchises. The fifth would untie ITV companies from their present obligation to take only ITN news for the news broadcasting which the IBA requires of them. The paper makes no recommendations between these options. The Home Secretary separately advocates option a (new shareholders up to 49%), and comments that if colleagues wish to go further they could add option e (untying).

2. The paper also discusses the possibility that competitive tender for the ITV franchises, and a levy on revenue rather than profit, might have an adverse effect on ITN, concluding that "in so far as ITV contractors become more cost-conscious in general, that cost-consciousness might apply also to ITN, but that would seem consistent with Ministers' general objectives".

3. I recommend that you:

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- a. support the view that competitive tender and a revenue levy for the basic ITV franchises are not likely in themselves to affect ITN's position, except to increase cost-consciousness which would be a good thing;
- b. express scepticism that additional shareholdings (options a-c) are necessary, or would achieve anything useful;
- c. support option e (untying ITV companies from a monopoly source of news material).

### Line to Take

3. - There is no reason to suppose that improving the efficiency of the ITV companies themselves would damage the quality of ITN. IBA regulation of the news broadcast by ITV companies should be sufficient to ensure that news continues to be of high quality, and objective. ITV companies will then themselves have the incentive to ensure that they have an adequate supply of high quality news.
- If their improved cost consciousness feeds through to ITN that would be a welcome reinforcement of the general policy of getting away from restrictive practices and high costs towards an efficient broadcasting industry capable of competing internationally. ITN is not immune from restrictive practices and high costs; the remarkable degree of protection which it enjoys can only encourage them. That protection was necessary to develop an alternative to BBC News. But ITN can now stand on its own feet (as paragraph 4 of the paper amply shows). If it continues to be protected as hitherto, then, with the best will in the world, over time it is likely to degenerate. In particular, the international news market will be a highly competitive one: it will go to those who are efficient, not those who run at high cost or on a subsidy.
- There seems to be no very good reason to pursue the first three options, for bringing extra money into ITN. They hardly need it. Nor is it likely to increase efficiency

while they remain so protected. If there is to be a change, however, option b may be better, because it will tend to show up the true profitability of non-core activities.

- In any case, however, we should pursue option e - untying. The present degree of guaranteed monopoly is dangerous for the future efficiency of ITN. Untying the ITV companies is not likely to result in ITN losing ground: it now has the quality and the strength to hold the ground it possesses. But it will tend to improve efficiency by a little competition at the margin, or in particular special sorts of news service, and by the signal to ITN that they have to work for their success.

### Background

5. This paper arises from concern expressed at the last MISC 128 meeting that the new system of competitive tender and revenue levy for ITV franchises might make particular ITV companies so cost-conscious that it would have an adverse effect on ITN. We have made sure that the paper by officials includes the point that ITN is not immune from the restrictive practices and high costs which underlie the Government's concern to improve the efficiency of the broadcasting industry, and that some general pressure for improved cost-consciousness from the new franchise arrangements would be no bad thing.

6. Behind this positive thinking is a strong ITN lobby which wants to continue the present exceptionally protected position of ITN (monopoly provider of news to ITV companies, compulsorily shown and compulsorily funded), but to take in new capital to expand other activities and to get free of the concerns of ITV companies over its costs.

7. The resulting paper is unsatisfactory in that it is addressed to no specific problem, and to no clear objective. We have, however, at official level, insisted on the inclusion of the case for allowing in principal some degree of competition in news as in other broadcasting, and added option e (to untie the ITV companies).

8. In practice, news is rather different from other television

broadcasting: standards are particularly sensitive, and at national and international level it requires an established network of communications and journalists to produce it. For this reason, we would accept the arguments in the paper against putting the news contract for ITV to competitive tender alongside other franchises. But the time has come to untie the ITV companies: it should be for them to say how they will fulfil the news responsibilities (including quality) laid upon them. In practice ITN has the quality and strength not to lose ground in any substantial way as a result, but competition at the margin and in particular sorts of news service will help its efficiency.

9. As between options a and b there is not much to choose. We frankly doubt whether either will have a significant effect on cost-consciousness and efficiency as the Home Secretary claims: they look more like devices to bring more money into an organisation which hardly needs it.

#### Others' Views

10. Mr Hurd is not particularly sympathetic to the power and ambitions of ITN. Hence, though he proposes option a, he also mentions option e (which we believe he would willingly accept). The Prime Minister has been lobbied by ITN, and is very concerned that its quality should not be threatened. But she will be briefed in support of option e for the reasons given in this brief.



B T GILMORE

CONFIDENTIAL

FROM: B T GILMORE

DATE: 27 October 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Spackman  
Mr Burr  
Mr Kaufmann  
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Mr Tyrie

**THE ITV SYSTEM AND CHANNEL 4  
BRIEF ON MISC 128(87)8**

This report by officials was considered at MISC 128 on 29 September, where Ministers' caution about the effects of competition led to further work on Channel 4 and ITN. It is on the agenda as "also relevant" for MISC 128 on 28 October, because it remains the basic work on the reform of the ITV system when the existing franchises expire. This brief recapitulates the main points in our original briefing on it.

**Proposals and Recommendations**

2. The paper contains a detailed scheme worked up by officials to implement the decision already taken by Ministers that for the new ITV contract round (starting in 1993 but requiring the new system to be in place by 1991) contracts should be awarded by competitive tender, and that there should continue to be a levy though one which is based on revenue rather than on profits. On this we recommend that you support the scheme proposed in the report by officials and endorsed by the Home Secretary.

3. The paper also describes three ways of enabling Channel 4 to sell its own advertising, two of which would move it into the private sector. The three options are:



1. to establish C4 as a separate broadcasting authority;
2. to move C4 into the private sector on the basis of a contract given to the present management;
3. to award the C4 contract by competitive tender alongside the basic ITV contracts.

We continue to recommend that you support the third of these options (awarding the C4 contract by competitive tender like any other ITV contract).

#### **Discussion: The ITV franchises**

4. Under a regime of competitive tendering it would have been possible to dispense with the levy altogether. But it is likely that uncertainties over prospective revenue and profits would lead to the level of both being inadequately reflected in the tenders received. Combining tendering with a levy seems a reasonable way of avoiding criticism over excessive profits (which would result from unduly cautious tenders), and the decision to have such a combined system has already in principle been taken. A levy on revenue is to be preferred to a levy on profits because the latter has acted as a serious disincentive to control of costs.

5. The detailed proposals from officials for implementing these decisions are that there should be a policy threshold, covering financial resources, programming plans, management strength and links with the relevant region, which would-be contractors would have to meet before they were allowed to tender. This should provide a safeguard against superficially attractive bids for contracts which reflected the low quality of the intended service rather than the efficient provision of high quality. On the form of the levy, officials recommend that there should be increasing levy bands at progressively higher levels of net advertising revenue per household (thus automatically correcting for differences in the size of regions). This was a Treasury proposal which the Home Office have accepted, and we recommend that you support it.

6. The paper also covers a number of other details, only two of which seem worth mentioning specifically. First, the paper raises the question whether a single company should be allowed to hold more than one ITV contract. The Home Secretary originally recommended that there should be an upper limit of two on the number of contracts which could be held by one contractor. He now proposes that no-one should be allowed to have a substantial stake in more than one contract. The Treasury interest lies in securing vigorous competition in the bidding for each contract. Up to a point, this would argue for giving reasonable freedom to bid for and hold more than one contract (though not to the extent that competition in the provision of broadcast services would then be seriously impaired). The Home Secretary's latest proposals seem unduly restrictive, and we recommend that you should argue that his original proposal (not more than two for any one contractor) seems more likely to stimulate the sort of competition in bidding that we want to see.

7. The second point is whether the tendering process should be subject to a reserve price. We believe that a reserve price would be desirable to protect the interests of the Exchequer, particularly since a re-run of the tender could attract contractors who had been unsuccessful in bidding for other contracts. The Home Office have been inclined to take the opposite view. This question can be settled in working out the details of a White Paper etc, and there is no need for you to raise it in MISC 128; it is noted here in case someone else raises it.

#### **Discussion: Channel 4**

8The Home Secretary originally dismissed the second option (to privatise C4 under its existing management), on the argument that it had no advantages compared with option 3 since there would be no way of ensuring that the present management remained in control once C4 was in the private sector. He came down in favour of option 1 (a separate broadcasting authority selling its own advertising) because he believed that the ITV system was already set to undergo sufficient shocks and challenges without going for competitive tender for C4 as well.

9. We recommend that you continue to argue for option 3 - competitive tender for C4. The line to take is given in the brief on the Home Secretary's new proposal (MISC 128(87)(9)).



B T GILMORE

CONFIDENTIAL

FROM: B T GILMORE

DATE: 27 October 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Spackman  
Mr Burr  
Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Call  
Mr Tyrie

**BROADCASTING LEGISLATION****BRIEF ON MISC 128(87)10**

The Home Secretary's paper sets out the broadcasting issues which require legislation, and seeks decisions on the timing and content of the legislation and of the White Paper to precede it. The main issues are whether to have two Bills, and if so whether the provisions for the reform of the ITV system when the present franchises expire should be in the first Bill (alongside provisions on Radio, and on Standards), or in the second Bill (alongside provisions for new services like MMDS or a Fifth Channel).

2. I recommend you support

- a) two Bills;
- b) the ITV package in the second; but
- c) an early White Paper with a clear commitment to free competitive entry for new services. The crucial thing is to get the current work on telecommunications and on the spectrum completed by end December, so that a Broadcasting White Paper before Easter can take a positive line on competition.

Am's Sankar

### Line to Take

- 3 - Agree two Bills are needed. The question is which should contain the package of reforms centring on the next round of ITV franchises.
- The key point, both about the franchises and about new services, is that success depends on a market response. The Government cannot determine that response. What it can and should do is give as much notice as possible of its own intentions, allowing plenty of time for possible new entrants to react before details become fixed in legislation.
- So the White Paper should be early in 1988, and should make clear the Government's commitment to allowing free competition for new entrants to television broadcasting subject only to regulation of standards. The ITV reform package should then go in the second Bill.

### Discussion

#### Treasury Interest

4. The Treasury interest turns on what arrangements are most likely to enable rapid progress to be made towards a plural, competitive market in broadcasting.

#### One Bill or Two?

5. The Home Secretary's paper sets out the problems of including a single major Broadcasting Bill either in 1988-89 (policy on new services will not be ready in time) or in 1989-90 (loses momentum). He seems unwilling to contemplate taking much of the detail of broadcasting into subordinate legislation. On that basis more frequent legislation is going to be necessary anyway. The possibility of two Bills was discussed at your informal tripartite meeting on 17 September (Mrs Ryding's letter of 18 September attached), and after the Prime Minister's seminar No.10 themselves asked for it to be considered (Mr Norgrove's letter of 1 October attached).

6. The need for a second Bill to deal with new services would

be avoided if the Government were to simply<sup>to</sup> legislate in the sense that new services were to be allowed only in accordance with the allocation of spectrum by a specified institution, and only under the regulation of a specified institution, the details to be approved by Parliament under (say) affirmative resolution. This would provide for a quicker response to technical and commercial change, while retaining Parliamentary control (which Parliament already lacks over the regulation of the spectrum by DTI). The Home Office argue, however, that the Government would not be able to persuade Parliament to handle in subordinate legislation such issues as whether new services were to be local or national, and whether local authority interests or foreign interests were to be allowed to operate them. It is difficult in the last resort to contest the Home Secretary's view on this point. If so, however, the Treasury interest lies in ensuring that the Government is fully committed to both Bills.

#### ITV Package: Which Bill?

7. Arguably, the Treasury would want to see as much as possible in the first Bill, to keep up the momentum and avoid any back-tracking. The difficulty, however, is that if the ITV package goes in the first Bill there will be nothing for the second Bill which could be called strictly necessary. In that event pressures on Parliamentary time might be used as a reason for delaying the necessary legislative provision for new services. On balance, therefore, we recommend that you should support the case for taking the ITV reform package in the second Bill. This also seems to be the best way of encouraging new entrants to come forward (for the reasons given in "line to take" above).

#### White Paper

8. With a mood of caution developing, however, the crucial thing is for the Government to set out clearly its commitment to free competitive entry for new broadcasting services in an early White Paper. This means that the result of current DTI work on telecommunications policy and on the spectrum must not slip past the end of the year. If it is argued that a long delay from White Paper to legislation would be awkward, you could point out that the Government could make a positive virtue out of giving possible new entrants plenty of time to respond to the opportunities. A good

period between White Paper and legislation would also better enable the Government to judge such things as the likely future demand for advertising, and the prospects for non-producer tenders. Conversely, if the Government were to invite Parliament to consider the terms of the new franchises before the market for new services had been encouraged to show itself in this way, Parliament might complain that the commercial environment of the new franchises was too obscure for it to be able to consider the Government's proposals.

#### Views of Others

9. Mr Hurd would probably like to put as much as possible into the first Bill, so as to be seen to bring forward substantial measures of reform as quickly as possible (and perhaps before a change of appointment). Lord Young is said to prefer taking the ITV package in a second Bill, because of the commercial linkage between new franchises and possible new services. The Prime Minister will be advised to take the line recommended in this brief, for the reasons at X and Y above in particular.



B T GILMORE

CHANCELLOR

FROM: B T GILMORE

DATE: 27 October 1987

cc Chief Secretary  
Financial Secretary  
Mr F E R Butler  
Mr Anson  
Mr Monck  
Mr Burgner  
Mr Spackman  
Mr Burr  
Mr Kaufmann  
Mrs Pugh  
Mr Call  
Mr Tyrie

**BROADCASTING: MISC 128 ON 28 OCTOBER**

There are many and rather bitty papers for this meeting. You have briefs on all of them, but you may find it helpful to have a short comment about the shape of the meeting.

2. The papers show the new caution and protectiveness towards the duopoly on which I have already commented.

3. With this in mind, your two main objectives at the meeting are probably -

- a. to restore the aim of improving competition in the ITV system, which there is a move to discard - this arises on both the Channel 4 and ITN papers;
- b. to ensure that there is no obfuscation or delay in opening up the broadcasting market to new services - this arises on the Legislation paper.

4. I have discussed these points with Professor Griffiths, who will brief the Prime Minister strongly in the same sense as the briefs I have given you.

5. In the light of this meeting, you may wish to consider "minuting out" about objectives, or an informal tripartite meeting (paragraph 9 of my minute of 26 October)



B T GILMORE

Pop. If No Hunt Sec's Jools  
Shops Nat B. Griffiths



825 for  
Push, New to  
Can Com.

MISC 128.

The Home Secretary's Office  
rang. In view of the  
inconclusive discussion of  
some of this morning's  
MISC 128 meeting, they  
would like to ~~hold~~  
suggest another trilateral.  
However, they also suggest  
inviting Brian Griffiths and  
Anthony Langden.

I assume there is no  
problem about a trilateral,  
but Brian Gilmore was  
uncertain about inviting  
Brian Griffiths. Gilmore says  
Anthony Langden is v sound  
and would be a useful pto



PERSONAL AND CONFIDENTIAL

FROM: B T GILMORE  
DATE: 28 OCTOBER 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Mr F E R Butler  
Mr Anson  
Mr Burgner  
Mr Burr  
Mr Tyrie

*Handwritten notes in red ink:*  
I suspect that X  
may be with in no. 1  
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be of some get back Masang  
stage...

BROADCASTING

*Handwritten notes in black ink:*  
15012  
has been done

I understand that the Home Secretary's response to this morning's meeting of Misc 128 has been to ask if you would take another trilateral meeting, and to propose that Professor Griffiths and the Cabinet Office Secretary concerned (Mr Langdon) should this time be included.

2. A trilateral meeting would be welcome. I wondered about including Professor Griffiths, but on balance, I think he should because the risk of any meeting being misunderstood is greater if he is not there.

3. As to the agenda, the Home Office thinking is that if you are willing to take such a meeting the Home Secretary would write listing topics. It would in practice go over the Misc 128 agenda to sort out what is to be reported back. The point you may wish to consider is whether, in addition, you would like to propose discussion at a more basic level. Candidates would be -

a. the Government's objectives (the importance of developing competition as a means towards an efficient broadcasting industry, capable of seizing the opportunities that lie ahead internationally);

b. major policy issues which bear on those objectives (telecommunications; spectrum efficiency; the role and scale of the duopoly);

c. the role of the Government in all this (and the limits to it).

4. My own instincts - given the state of the papers - would normally be to

*Blue stamp:*  
GILMORE  
→  
CHLEX  
28/10

try to get back to basics in this way. But I am conscious that the  
question can only be judged in the light of this morning's meeting.  
I gather that one of the Home Secretary's reactions has been to be  
reluctant now even to bring subscription into the brew: immediately,  
at any rate, he wants to concentrate on simply getting clear decisions  
on the immediate points for decision. From what I have heard, you  
may well feel that this is right.



B T GILMORE

Jeremy to get back.



pm

\*

Alex done  
128

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gratified pyro  
extract me from  
x put in time  
batter here.

Phenyls FSI  
substituted  
for me.

CONFIDENTIAL



*Handwritten initials: CR*

FROM: CATHY RYDING  
DATE: 28 October 1987

PS/FINANCIAL SECRETARY

cc: CST  
Sir P Middleton  
Mr F E R Butler  
Mr Anson  
Mr Burgner  
Mr Gilmore  
Mr Burr  
Mr G M White  
Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Tyrie

**BROADCASTING**

The Chancellor was most grateful for the Financial Secretary's minute of 26 October covering Mr Gilmore's minute of the same date.

2. The Chancellor notes Mr Gilmore's comment in his paragraph 9 that an informal meeting with Mr Hurd and Lord Young may be necessary *and* he thinks may be a good idea.

*Handwritten initials: CR*

CATHY RYDING



FCS/87/223

HOME SECRETARY

29/10/87.

CH/EXCHEQUER	
REC.	29 OCT 1987 29/10
ACTION	MR GILMORE
COPIES TO	CST FST PMG EST SIR P MIDDLETON MR FER BUTLER MR ANSON MR MONCK MR MONTFIELD MR BARR MR PG DAVIS MR CROPPER MR TYRRE MR CALL

### External Television Broadcasting

1. We met with Nigel Lawson, Norman Tebbit, Paul Channon and Brian Griffiths on 23 March to consider the prospects for external TV broadcasting in the light of the BBC's proposal for a World TV News service and the existing ITN package.

2. We subsequently told the BBC that we could not accept their scheme as then formulated. This led them to a fundamental rethink. The BBC have now produced a commercially based proposal. It reflects Michael Checkland's far more realistic and cost-conscious approach (evident also in the recently announced five year strategy). This is a welcome trend generally.

3. In examining the revised proposal I have made the following assumptions:

- we would not wish to see new funding additional to that already devoted to external broadcasting and COI TV material for overseas use;
- we could not contemplate any arrangement designed to put ITN at a disadvantage to the BBC internationally;
- funding would have to be accommodated within the outcome of the PES round.



4. The BBC propose a half hour service, five days a week, substantially supported by commercial revenue. They envisage a contribution from government solely for pump-priming and over the first three years only, after which it would be run wholly on commercial lines. There would be no commitment to Government funding after that period. The commercial risk would be theirs (to be met from income from BBC Enterprises). The proposed FCO contribution is now about one sixth of that earlier envisaged. It would amount to £1.5 million capital and £2.8 million towards running costs. The BBC hope this would be new money.

5. I have examined these revised proposals carefully. I am now satisfied that the modest investment envisaged is fully justified as part of our existing information effort overseas, but not as additional expenditure. In forming this view I have considered in particular:

- the expansion of TV worldwide (reflected in the firm wish of both the BBC and ITN to invest accordingly);
- the obstacles to the BBC going ahead without pump priming, because of their dependence on the licence fee, and grants-in-aid, and their inability to raise the necessary risk capital (in which respect they lack ITN's freedom of action).



6. I therefore propose to tell the BBC that I would be ready to agree to the reallocation of resources primarily from vernacular radio (not the BBC World Service) to fund TV, subject to:

- agreement on prescription changes which would safeguard high priority vernacular radio broadcasting;
- satisfactory arrangements to ensure that FCO objectives are met, in terms of the service provided and countries served.

I would also tell the BBC that we would consider funding for distribution to poorer countries provided that FCO objectives were fully met, without excluding the possibility of funding distribution of the ITN service.

7. I have also considered the presentation of this decision. Support for the principle of external TV is strong. Delaying our response could in itself add to the pressures. I think that an open-minded approach to the principle of external TV broadcasting by the BBC, coupled with very strict financial arrangements, strikes the right balance. If the BBC accept our proposals we may face criticism for the inevitable reductions in radio services, but I believe this should be manageable, particularly as reductions will reflect agreement with the BBC on priorities. I think ITN's concerns will be substantially met by a decision which precludes additional funding for the BBC.



8. Subject to any views colleagues may make known by 10 November I propose to instruct officials to hold discussions with the BBC to establish whether they would be ready to work within the framework proposed.

9. I am copying this minute to the Prime Minister, Nigel Lawson, David Young and Kenneth Clarke.

A handwritten signature in black ink, appearing to be 'G. Howe', with a horizontal line underneath.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

29 October 1987





10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	3 NOV 1987 v3/11
ACTION	MR GILMORE
CAMES 10	CST FST SIR P. MIDDLETON MR FERSTLER MR ANSON MR BURGER MR BURR MR G. WHITE MR KAUFMAN MRS PUGH MR CAVE MR MAW

2 November 1987

From the Private Secretary

Dear Philip,

STRUCTURE OF BROADCASTING

The Prime Minister is conscious that in the discussions about broadcasting the operation of the IBA itself has not yet been considered. She has asked that thought should be given to whether this could be improved and if so how.

I am copying this letter to the Private Secretaries to the other members of MISC 128 and to Trevor Woolley (Cabinet Office).

Yours,  
David

David Norgrove

Philip Mawer Esq  
Home Office.

NOR-  
GROVE  
→  
MAWER  
2/11

RESTRICTED



1 Moura  
~~2 Biff with~~  
ad

10 DOWNING STREET  
LONDON SW1A 2AA

6 November 1987

*From the Private Secretary*

EXTERNAL TELEVISION BROADCASTING

The Prime Minister has seen the Foreign Secretary's minute of 29 October to the Home Secretary putting forward revised proposals for external TV broadcasting. She recognises that the assistance which is proposed to make available to the BBC for this purpose from public funds is considerably smaller than originally contemplated and does not involve any new money. Nonetheless she continues to see problems about making any public funds available to the BBC for this purpose without also offering exactly the same facilities to ITN, for instance by allowing them to tender for the project. It must of course be far from certain whether ITN would accept the prescription arrangements which apply to the BBC external services. Nonetheless, the Prime Minister would like further consideration to be given to this point so that Government is seen to be absolutely even handed between the BBC and ITN.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (Home Office), Tim Walker (Department of Trade and Industry) and Peter Smith (Chancellor of the Duchy of Lancaster's Office).

Charles Powell

CH/EXCHEQUER	
REC.	6 NOV 1987 6/11
MR GILMORE	
C ST FST PM GEST	
SIR P. MIDDLETON	
MR FERBUTLER MR ANSON	
MR MONK MR WATFIELD	
MR BURR MR DAVIS	
MR KOSMOR MR TYRRE	
MR CALL	

R.N. Culshaw, Esq., MVO.,  
Foreign and Commonwealth Office.

RESTRICTED

pmp - Papers  
Pse

FROM: P G F DAVIS

DATE: 6 NOVEMBER 1987

CHIEF SECRETARY

cc Chancellor  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir Peter Middleton  
Mr F E R Butler  
Mr Anson  
Mr Gilmore  
Mr Monck  
Mr Mountfield  
Mr Burr  
Mr Denison  
Mr Kaufmann  
Mr Cropper  
Mr Tyrie  
Mr Call

Ch/Chief Sec's office  
think letter should come  
from you. Do you want  
to write? Content with  
draft?

MPW 6/11

## EXTERNAL TELEVISION BROADCASTING

The Foreign Secretary's minute of 29 October to the Home Secretary proposes a pump-priming contribution, for the first 3 years only, to a revised BBC project for a world television news service. He would find the money from within his existing provision. It would be useful to react to the proposal before the deadline he has set of this coming Tuesday. We suggest that it might be more appropriate for you to reply than for the Chancellor.

2. Your predecessor was present at a discussion of an earlier, more ambitious, proposal by the BBC which the Foreign Secretary held on 24 March (the first paragraph of his minute is not quite accurate). I attach (top copy only) a minute of 27 March from his Private Secretary recording the discussion. The new proposal is clearly much less objectionable. After the first 3 years the service would be run wholly on commercial lines. The sums provided by Government would be much less: £1.5 million capital contribution and £2.8 million towards running costs. They would come out of FCO's existing provision for the BBC External Services. (You might however wish to comment on the fact that you recently settled the Foreign Secretary's programmes on the understanding that you were providing for an irreducible minimum of External Services Broadcasts.)

3. That said, there are questions which the Foreign Secretary's minute does not deal with satisfactorily. It does not go without saying that it is right for public money to be used to support a world TV news service - even just to help it get started. The Prime Minister, and we understand the DTI, are concerned about making any public funds available to the BBC for this purpose without also offering exactly the same facilities to ITN, for instance by allowing them to tender for the project. There must be doubts about the effectiveness, in the present state of the art, of international TV broadcasting as a medium for achieving FCO policy objectives - and even greater doubts about value for money. The public expenditure implications need to be pinned down a little more firmly. We believe that further exploration by officials would be prudent before the FCO take things further with the BBC.

4. I attach a draft reply which makes this suggestion.

*P G F Davis*  
1340

P G F DAVIS

MINUTE

CH/EX

~~DRAFT LETTER FROM THE CHIEF SECRETARY~~  
TO THE FOREIGN SECRETARY

EXTERNAL TELEVISION BROADCASTING

I have seen a copy of your minute of 29 October to Douglas Hurd.

2. Your proposal to switch some of the resources provided for external sound broadcasting to a world TV news service took me slightly by surprise. In your recent discussions with John Major he I was persuaded to agree to an increase in your budget on the understanding that it was necessary to accommodate the minimum politically-acceptable level of service by the BBC external services, and specifically in vernacular radio. But I can see that you might feel that policy objectives might be satisfied equally well by a mixture of sound and television broadcasting, provided the television component seemed likely to be at least as effective as the radio component it replaced. It seems to me that there must be some doubt about this in view of the additional technical requirements of satellite TV reception; and I am sure you will be seeking to satisfy yourself on this point. If we can be reasonably assured of value for money, and if colleagues generally take the view that it would be right for us to make a pump-priming contribution, then subject to satisfactory resolution of the point raised in the last paragraph, I will not object to a contribution being found from within existing provision.

3. I note the Prime Minister's view that it would be wrong to use any public funds for this purpose without offering exactly

*( I see much force in this: )*

the same facilities to ITN.) ~~It~~ seems entirely right to avoid any arrangement which would put ITN at a disadvantage to the BBC internationally. ~~but I shall be interested to hear Douglas Hurd's views on the Prime Minister's suggestion, and on whether your proposal might lead to difficulties with ITN and any consequent pressure from that direction on public funds.~~

*On the other hand, but I must make it clear that if any public funds were to flow to ITN for this purpose then, too, would have to come out of your budget. No doubt Douglas Hurd will have views on whether your proposal, as it stands, might lead to difficulties with ITN.*

4. I very much welcome your resolution to make agreement conditional on acceptance by the BBC of satisfactory prescription changes. I trust the BBC will understand that the presumption will be that if world TV news is successful these changes will be permanent and they cannot expect reductions to be restored at the end of the 3-year period. Distribution to poorer countries is, I take it, not likely to be practicable for some years. But if there should be any reference in your talks with the BBC to our willingness to consider funding such distribution, I trust you will make it clear that we cannot promise any additional resources for it.

5. It seems to me that the best course now would be for officials of all four Departments concerned (including the Treasury) to meet and consider the various options, so as to put revised advice to Ministers.

6. I am copying this to the Prime Minister, Douglas Hurd, David Young and Kenneth Clarke.

~~JOHN MAJOR~~



DEPARTMENT OF TRADE AND INDUSTRY  
 1-19 VICTORIA STREET  
 LONDON SW1H 0ET  
 TELEPHONE DIRECT LINE 01-215 5422  
 SWITCHBOARD 01-215 7877

DTI  
 TO  
 NO 10  
 9/11

PS/  
 Secretary of State for Trade and Industry

09 November 1987

David Norgrove Esq  
 Private Secretary  
 10 Downing Street  
 London SW1

CH/EXCHEQUER	
REC.	10 NOV 1987 ✓ 10/11
<del>IN</del>	MRC GILMORE WITH ATTACHMENT
COMES TO	CST FST MR FER BYLER MR ANSON MR BURGNER MR BURR MR TYRRE.

Dear David

My Secretary of State had a follow-up discussion with John Jackson following the Prime Minister's seminar on 21 September. Mr Jackson has since sent in a paper summarising his views, which he intends to use as the basis of an address to the Cable Television Association later this month.

Lord Young thought the Prime Minister and MISC 128 colleagues would be interested to see a copy of this paper, and one is enclosed.

I am sending copies of this letter and its enclosure to the Private Secretaries to other members of MISC 128 and to Sir Robert Armstrong.

Yours

Jeremy Godfrey

JEREMY GODFREY  
 Private Secretary

UK TELEVISION BROADCASTING  
A FRAMEWORK FOR THE NEXT TWENTY YEARS

1. We have an opportunity in the UK to accelerate the development of a vigorous and successful broadcasting industry which will employ people, move out into world markets and provide greater individual choice for the public. The opportunity lies in both hardware\* and software/programmes\*\*.

2. The opportunity is there because of:-

A growing and exciting enterprise culture in the country as a whole which is releasing a flood of previously frustrated creative energy.

and

New technological developments which make possible new and additional ways of creating, transmitting and storing visual images.

and

A substantial acceleration in the growth of expendible income devoted to leisure and entertainment.

All these will encourage broadcasters to adopt the new technologies and compete in an expanding market place, if they are permitted to do so.

---

\* studio and production equipment, transmission equipment, encryption equipment, reception equipment (including satellite and MMDS reception equipment and decoders) and hardware connected with subscription management systems

\*\* all material on tape or film suitable for showing on TV or for recording including, in particular, new forms of programming made possible by advances in the technology of creating computer generated images as well as management software connected with subscription and pay per view.



3. For the opportunity to be taken to the greatest possible extent, a framework is needed which will permit vigorous competition and stimulate a continuing dialogue between technological advance and commercial possibilities.

To a considerable extent, broadcasters will always use a limited national resource - e.g. the radio spectrum or the right to dig up roads in Birmingham. So there are public interest aspects in addition to those raised by the public service broadcasting question and the need to protect the public in the areas of violence, obscenity etc. The framework must reflect these aspects also in a way which admits open public accountability.

The competition which is needed will take place between broadcasters using competing transmission and storage systems, for two different sources of income (advertising/sponsorship and subscription/pay per view) and by offering choice to the consumer.

It is essential that the framework allows this interplay between market forces and technological advance to work unhindered. It must not assume in advance that one technology will dominate others or that the public will necessarily prefer "free" television over that available on a subscription or pay per view basis.

The technologies which are available make possible competition between broadcasters using UHF terrestrial broadcasting, direct broadcasting by satellite, cable systems linked by and with MMDS (which will be fed increasingly by low/medium power satellites as well as by locally produced programming) and storage systems such as video tape and video disc. All these have distinct advantages and disadvantages for the consumer and would find their own level in the market.

4. There has been much comment on the question of spectrum scarcity in relation to UHF terrestrial television. We have got ourselves into a position in the UK in which, in marked contrast to other countries, we only have four terrestrial TV channels. This is partly because of the policy of "universality" but it is partly because of a conspiracy of silence. The conspiracy has been there because we have no profit making enterprises having to make their way in the world by exploiting the radio spectrum for TV purposes directly or indirectly by doing business with people who want to operate in that spectrum. The IBA establishment at Crawley Court with its mown lawns and elegant fountains, taken by itself or together with the matching BBC establishments, certainly does not constitute an entrepreneurial organisation.

In considering the framework needed, a clear case can be made for removing from the BBC and IBA responsibility for investing in and providing TV transmission facilities. We could have instead a new corporation, which could be "privatised", with the task of making transmission facilities available to broadcasters on a commercial basis, e.g. by making a leasing charge - possibly linked to income or profit. This corporation would have a starting position in UHF terrestrial broadcasting but could be expanded to embrace the new transmission technologies. Such a corporation could purchase BSB's satellites from it and lease back three transponders. That would go a long way to unlock the future position on the two DBS frequencies still unallocated. It could invest in cable and MMDS systems and lease them to broadcasters. This might assist the growth of cable/MMDS significantly. The corporation might also be able to negotiate access to BT's conduits. BT is using a priceless national resource. Should it be allowed to sit on all the eggs in a mindless monopolistic way or should it be forced to share with others the advantage it has inherited as a matter of historical accident? Of course, DBS and cable/MMDS broadcasters could invest in their own transmission systems if they wished or lease them from others. The transmission corporation would probably have to be based on an initial monopoly of UHF terrestrial transmission capability, but that monopoly need not last

for ever. Talking of monopolies, why should BT and Mercury have an exclusive position in relation to satellite up linking etc? One can also envisage the transmission corporation competing or enabling competition with BT and Mercury in other areas concerned with the transfer of video information and it could also stimulate competition with them in the general field of telephony and information transfer.

5. The two sources of income that broadcasters will be competing for are advertising/sponsorship and subscription/per pay view - leaving aside straight sale to consumers of stored images, (video tape and video discs). Another reason we are sitting with a stunted broadcasting industry now is that there has been a monopoly of access to the advertising market. It is essential that this monopoly is broken and that no similar monopoly is created in the case of subscription/pay per view. Pay per view may become a very important activity in future in view of probable demographic change and the continuing associated decline in cinema audiences. A monopoly of access to the subscription market would extend automatically to pay per view and could lead in turn to the denial of access for other broadcasters to certain material, eg. feature films, sporting events etc. As competition and choice increases there seems to be no reason to deny the ITV

companies and their successors, as well as the BBC, access to the subscription market.

6. It is important that broadcasters using different transmitting systems be enabled to compete fairly and freely for access to programming material. This is one of the reasons that the "must carry" rule should be abolished in its totality and that no one, including the BBC, should be allowed to purchase national events such as the Cup Final or the Derby on an exclusive basis. The purchase of particular rights, e.g. cable rights in addition to broadcasting rights with the intention of withdrawing them from the market is an obnoxious practice, particularly when used by a monopolist. "A tyrant is a giant who uses a giant's strength."

Moreover, in order to stimulate the development of the programme making industry, there must be competition between programme makers for the custom of the broadcasters and limitations placed on the ability of large individual broadcasters to lock up access to the screen by producing too much material for themselves or on a swap basis with other broadcasters. The bigger the "franchise" the broadcaster has, the more easy it is for him to create (and justify) his own vertical monopoly. In the case of the BBC, this can be dealt with by legislation but there is also a case for avoiding this by

increasing significantly the number of commercial franchises available and, thereby, reducing the individual size of those franchises. Cable/MMDS presents no problem in this respect - indeed it should thrive on a multiplicity of local systems - and there is likely to be external competition in the case of direct broadcasting by satellite. It is in the case of terrestrial UHF systems that action could be taken and the number of franchises increased substantially both by geographical division and also by time division. There seems to be no reason, for example, why the franchise area presently occupied by my old friends at Central, should not be divided between both East and West Midlands and by weekday, weekend and night time. Some will say that such an approach would destroy a national ITV service on a networked basis. It is not clear why that should be the case - networking would have to be organised in a different and more transparent way. Channel 4 has demonstrated one way to run a national service with access to a multiplicity of production facilities. The creation of a common strand to be used by a large number of regional broadcasters should not present too serious an organisational problem and normal market mechanisms would take care of the question of price - the larger his potential audience and its value the more a broadcaster would pay for programme material. Householders in small "poor" areas would not be deprived of material to the benefit of householders in large "rich" areas. The funding of a national news service like ITN does not

depend on having a few large shareholders/customers - many small shareholders/customers will do as well. And so far as regional programming is concerned, the small ITV companies seem to put up a good show and independent producers will be happy to compete in this field also if the demand is there.

7. There is the question of public service broadcasting, whatever the agreed meaning of that may be from time to time. At the moment we have in the BBC two national (or virtually national) television channels, massively funded by the licence fee. It is possible that the generally accepted boundaries of public service broadcasting will narrow over time as technology and competition increases the choice available to the public. And the willingness of the public to pay large sums of money on a taxation basis for a shrinking service may decrease. However, these things will happen slowly and now that the question of the level of the licence fee has been settled for the time being, no harm can come of allowing the BBC time to adapt to the changes which will develop over a considerable period. Indeed a heavily funded BBC conscious of "public service" and competing for audience attention should be an important part of the answer to fears about a decline in standards as more competition is permitted. Not enough is made of this. People who point gloomily to the US and Italy should remember the role the BBC could and should play.

The case of Channel 4 is different. Its present remit is defined in terms, broadly speaking, of what others do not do. It is not possible to "privatise" directly or indirectly a body with such a remit and it is questionable whether any broadcaster with such a remit can last for long with any form of "natural" life. This must be a matter of public policy. If it is desired to maintain Channel 4 in its present form, in the context of public service broadcasting, in addition to two BBC channels, then that can probably only be achieved by maintaining Channel 4 in some way as it is now, i.e. as an artificial adjunct to regional broadcasters using the UHF terrestrial system. In that case, should there be a fifth terrestrial channel to compete for advertising and subscription income? If such a situation was not seen as desirable - and one can ask what BBC2 should be doing - then Channel 4 could become the basis of a commercial national service in full competition with everyone else and subject to the full rigours of competition. It would then have to adopt a positive remit and judge for itself whether or not to go for a niche market. In that case, perhaps a fifth terrestrial channel would be unnecessary.

8. In any industry competition is encouraged by making it as easy as possible for new entrants to come in and, of course, existing participants to move out. Of course, public policy demands that limited national resources are made available in a fair way which reflects the general



interest, but there seems to be no sensible argument against awarding franchises on the basis of competitive tender. Tendering would obviate the need for the levy and the distorting evils which go with it. The price tendered would, of course, reflect any rent payable to the transmitting corporation. Tenderers would have to produce evidence of their financial strength and there could be rules dealing with the question of the nationality of broadcasters and the extent of permitted involvement in broadcasting. The regulating body (see post) could have power to disenfranchise and declare persons and corporations ineligible for involvement in broadcasting. These safeguards should remove objections to the direct or indirect acquisition of franchises from franchisees.

9. There remains the question of regulation. At present we have positive (thou shalt) regulation. This is the justification for maintaining the legislative fiction of the IBA as "broadcaster". A competitive environment only admits of negative (thou shalt not) regulation. "Thou shalt" must be looked after by the publicly funded BBC with its public service remit and, perhaps, also by that artificial corporation Channel 4. Negative self regulation is likely to work imperfectly for a number of reasons. The lack of adequate sanctions is one of them. There seems little alternative therefore to self regulation underpinned by a regulatory body separate from the broadcasters and with the power to impose sanctions

in the case of the broadcasting of obscene material or other material which is generally agreed to be unacceptable in terms of public policy. The sanctions could be penal and, as already indicated, could include suitable measures to disqualify people or companies from future involvement in broadcasting. All broadcasters, including the BBC, would be treated alike for this purpose and would be subject to exactly the same rules. So far as material coming from overseas is concerned, probably delivered by satellite, there is no problem with prevention in the case of re-broadcasting by cable/MMDS or by UHF terrestrial systems. In the case of DBS reception, if the overseas material imported is illegal, then no subscription would be collectable in practical terms and, if it was financed by advertising, it could be made an offense for an advertiser to purchase and use air time on a channel carrying noxious material. This regulatory body could also underpin a system of self regulation with regard to advertisements and their content.

10. Sketched out above is a framework which rests on three bodies. A commercially oriented profit making transmission company, a non-profit making franchising body, (with, perhaps, some grip over minimum technical standards) operating openly, publicly accountable and

selling franchises by tender and a regulatory body underpinning a system of self regulation whose remit could also cover stored material, video tape, video discs and advertisements. Within this framework all broadcasters, including the BBC, to a considerable degree, would operate in competition with one another. The proposal involves an immediate removal of the BBC's transmitting role (and a gradual but significant change in its role as a broadcaster), the immediate abolition of the IBA and of the Cable Authority and a re-allocation of those of their activities which are still useful. The franchising body looks very like a re-born and enlarged Cable Authority.

These changes could be brought about relatively easily. There are two factors which would assist in this. The broadcasting industry could be a rapidly expanding industry and expanding industries easily accommodate change. Secondly, it is an industry in which many of the people employed are very "mobile". It might be necessary to have an "implementing" commission which organised the change from the present situation to the new system within a timescale laid down by Parliament.

J.B.H. JACKSON

28 October 1987



FROM: MISS M P WALLACE

DATE: 9 November 1987

MR GILMORE

cc Chief Secretary  
Financial Secretary  
Mr F E R Butler  
Mr Anson  
Mr Burgner  
Mr Burr  
Mr Tyrie

**BROADCASTING**

The Chancellor has seen your minute of 28 October and has commented that getting clear decisions on the immediate issues may be right as a first priority, but he will want to get back to basics at some stage.

2. He is content for Mr Renton, Professor Griffiths, and Mr Langdon to be present at the "trilateral", and would also like the Financial Secretary to attend. He will be considering whether he wishes to raise other matters at the meeting, as suggested in Mr Mawer's letter of 6 November, and would be grateful for advice.

*M.P.W.*

MOIRA WALLACE

MW  
→  
Gilmore  
9/11



9/11/87

cc CST  
 FST  
 PMG  
 EST  
 Sir P Middleton  
 Mr F E R Butler  
 Mr Anson  
 Mr Gilmore  
 Mr Monck  
 Mr Mountfield  
 Mr Burr  
 Mr Denison  
 Mr Kaufman  
 Mr Davis  
 Mr Cropper  
 Mr Tyrie  
 Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

FOREIGN SECRETARY

**EXTERNAL TELEVISION BROADCASTING**

I have seen a copy of your minute of 29 October to Douglas Hurd.

Your proposal to switch some of the resources provided for external sound broadcasting to a world TV news service took me slightly by surprise. In your recent discussions with John Major he was persuaded to agree to an increase in your budget on the understanding that it was necessary to accommodate the minimum politically-acceptable level of service by the BBC external services, and specifically in vernacular radio. But I can see that you might feel that policy objectives might be satisfied equally well by a mixture of sound and television broadcasting, provided the television component seemed likely to be at least as effective as the radio component it replaced. It seems to me that there must be some doubt about this in view of the additional technical requirements of satellite TV reception; and I am sure you will be seeking to satisfy yourself on this point. If we can be reasonably assured of value for money, and if colleagues generally take the view that it would be right for us to make a pump-priming contribution, then subject to satisfactory resolution of the point raised in the next paragraph, I will not object to a contribution being found from within existing provision.

The Prime Minister has expressed the view that it would be wrong to use any public funds for this purpose without offering exactly the same facilities to ITN. I see much force in this: it seems entirely right to avoid any arrangement which would put ITN at a disadvantage to the BBC internationally. But I must make it clear that if any public



funds were to flow to ITN for that purpose this, too, would have to come out of your existing budget. No doubt Douglas Hurd will have views on whether your proposal, as it stands, might lead to difficulties with ITN.

I very much welcome your resolution to make agreement conditional on acceptance by the BBC of satisfactory prescription changes. I trust the BBC will understand that the presumption will be that if world TV news is successful these changes will be permanent and they cannot expect reductions to be restored at the end of the 3-year period. Distribution to poorer countries is, I take it, not likely to be practicable for some years. But if there should be any reference in your talks with the BBC to our willingness to consider funding such distribution, I trust you will make it clear that we cannot promise any additional resources for it.

It seems to me that the best course now would be for officials of all four Departments concerned (including the Treasury) to meet and consider the various options, so as to put revised advice to Ministers.

I am copying this to the Prime Minister, Douglas Hurd, David Young and Kenneth Clarke.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L.

9 November 1987



*b/f w/ advice*

<b>CH/EXCHEQUER</b>	
REC.	10 NOV 1987 <i>10/11</i>
ACTION	MR P. DAVIS
COPIES TO	CST FST PM GEST S. R. MIDDLETON MR FERBUTLER MR ANTON MR MONCK MR GILMORE MR MANTFIELD MR BURR MR CROPPER MATHYRIE MR CALL

*M.*

FOREIGN SECRETARY*10/11/87*EXTERNAL TELEVISION BROADCASTING

Thank you for your minute of 29 October about the BBC's revised proposal for a World TV News service. I have also seen the minute from the Prime Minister's Private Secretary to yours.

2. You fairly point out that the BBC's latest proposal is more realistic and cost conscious than its predecessor; that the proposed service would be run on commercial lines; that a Government contribution would be essentially for pump-priming; that you would find such a contribution from within existing resources; and that you are not excluding the possibility of funding distribution of the ITN service to poorer countries. This adds up to a considerable advance on the previous proposal. I am nevertheless not entirely convinced that the approach suggested in your minute fully meets the objectives discussed at our meeting on 24 March, or that ITN will not regard it as undermining the competitive position of their daily 30 minute news programme "ITN World News". It was not clear from your minute whether the BBC had satisfied you that the proposed service could not from the outset stand on its own commercial feet. If it could, then the BBC should borrow or attract equity capital to set it up, rather than relying on Government support. On the assumption that it could not, the approach which we favoured when we met was that the Government should seek to get the best buy - whether the supplier was the BBC, ITN or anyone else - for services for whichever developing countries we had in mind. I accept that we do not start with a level playing field, but pump-priming a BBC service is likely to be seen by others as discriminating in the BBC's favour in advance, notwithstanding that the

2.

money involved is not new money. I was not clear from your minute on what basis you would see a BBC service as a good buy in comparison with current and potential competing services. I am naturally ready to join in a further discussion if that would help.

3. On a secondary point, my officials have registered with yours a Home Office interest in any questions of sponsorship to which the BBC proposal might give rise. I understand that the BBC proposal envisages their revenue as coming primarily from sale of the service to its buyers, and that it is silent about whether sponsorship is envisaged. The BBC have indicated that they will be putting proposals to me about sponsorship on BBC 1 and BBC 2, and my concern is simply that we should be able to take account of any sponsorship proposals which may surface on the external side, bearing in mind that present restrictions on sponsorship could not be relaxed without amending the BBC's Licence and Agreement.

4. I am copying this minute to the Prime Minister, Nigel Lawson, David Young and Kenneth Clarke.

*Doyl - Howard*

10 November 1987





Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

10 November 1987

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London SW1

CH/EXCHEQUER	
REC.	10 NOV 1987 10/11
ACTION	MR P. DAVIS
COPIES TO	CST FST PMG EST SIR P. MIDDLETON MR FER BUTLER MR ANSON MR MONK MR GILMORE MR MONTFIELD MR AAR MR COPPER MR TYLIE MR CALL

*Geoffrey*

**EXTERNAL TELEVISION BROADCASTING**

Thank you for sending me a copy of your minute of 29 October to Douglas Hurd. I have also seen Charles Powell's letter of 6 November recording the Prime Minister's view that further consideration should be given to placing the BBC and ITN on an equal footing.

I agree with the Prime Minister that this further work should be undertaken before we reach a decision on the BBC's proposals, which I have not of course seen. I should be grateful if your officials would involve mine in this work, as was envisaged at the meeting on 24 March.

From my reading of the record of that meeting, it would appear that an examination of the case for HMG's involvement in broadcasts to closed economies and the Third World would be a key element in reaching an overall decision; and that any assistance would be likely to address the distribution, rather than production, costs.

It also seems to me that, if the BBC's external television service is intended to be run on a commercial basis through BBC Enterprises, and their inability to raise risk capital is really an insuperable obstacle, any start-up funding from Government should perhaps be provided on terms no better than could be secured commercially rather than in the form of grant.

I am copying this letter to the Prime Minister, Douglas Hurd, Nigel Lawson and Kenneth Clarke.

*Lord Young*

LORD YOUNG OF GRAFFHAM

JG7ADH



DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422

SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

12<sup>th</sup> November 1987

Rt Hon Douglas Hurd CBE MP  
Secretary of State for the Home Department  
Home Office  
Queen Anne's Gate  
London SW1

CH/EXCHEQUER	
REC.	12 NOV 1987 ✓ 12/11
ACTION	MR GILMORE
COPIES TO	CST FST SIR P. MIDDLETON MR FERBSTER MR ANSON MR BURGER MR BURR MR G. LITTLE MR LAVENHAM MRS PUGH MR CAVE MARYKIE.

YOUNG  
→  
HURD  
12/11

*See Taylor,*

STRUCTURE OF BROADCASTING

I have seen a copy of David Norgrove's letter of 2 November to Philip Mawer about the operation of the IBA.

I agree that it would be consistent with our thorough review of broadcasting matters to look at the IBA. This raises a number of issues of concern to my Department, including advertising, radio frequency matters and competition policy generally, and I should be grateful if my officials could be involved in this work.

I am sending copies of this letter to the Prime Minister, to the other members of MISC 128 and to Sir Robert Armstrong.

*Ans,*  
*Mawer*

LORD YOUNG OF GRAFFHAM

for meeting  
folder

FROM: B T GILMORE

DATE: 13 November 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Mr Anson  
Mr Burr o/r  
Mr Kaufmann  
Mr Tyrrie**BROADCASTING: "TRILATERAL" ON WEDNESDAY 18 NOVEMBER**

The Home Secretary's proposed agenda for the meeting under your chairmanship on Wednesday 18 November (his letter of 6 November) amounts to a re-run of the three subjects which got nowhere at MISC 128 on 28 October. I do not think you need suggest any additions. The background is as follows.

2. He feels the need to get at least some pieces in this "kaleidoscope" settled. I think your own interest coincides with that. His idea is to report back to MISC 128 not just with particular answers to particular remits (which led to the exceptionally messy agenda last time), but with self-contained proposals on each of the three issues:

- a. the future of ITV franchises;
- b. the future of ITN;
- c. the future of Channel 4.

He would like these proposals if possible to be acceptable to you and Lord Young; or at least to be clear where there are points on which the three of you may disagree.

3. Meanwhile, the kaleidoscope has been shaken again by the Prime Minister's request for the operations of the IBA to be brought under consideration (Mr Norgrove's letter of 2 November), and perhaps by Lord Young's circulating (letter of 9 November) the paper by Mr John Jackson which advocates dismantling the existing institutions of public

GILMORE  
→  
CH/EX  
13/11

service broadcasting and regulation in favour of competition between broadcasters (including a non-regulatory, non-transmitting BBC) within a framework of a commercial transmission company, a quango allocating franchises by tender and a regulatory body "under-pinning a system of self-regulation".

4. Consideration of subscription at official level has been quite promising, and Home Office officials are now taking the Home Secretary's views on it. But MISC 128 on Thursday 19 November will consider only final decisions about Radio in the light of responses to the Green Paper.

5. Against this background I do not think you should suggest any further topics for Wednesday's trilateral meeting. All three subjects proposed by the Home Secretary may afford the opportunity to open up basic questions about the importance of competition if you judge that wise during the meeting, and I will frame the briefing accordingly. But I think it would be premature to insist on tabling them.



B T GILMORE

CONFIDENTIAL



FROM: B T GILMORE

DATE: 17 November 1987

CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Mr Anson  
Mr Burgner  
Mr Spackman  
Mr Burr  
Mr Kaufmann  
Mrs Pugh  
Mr Cave  
Mr Tyrie  
Mr Call

**BROADCASTING: INFORMAL MEETING ON 18 NOVEMBER****Background**

The Home Secretary asked you to chair this meeting to help him to report back to MISC 128 on three issues which were not settled on 28 October. He has provided an agenda for this purpose (attached-A). The three issues are:

- a) the future of ITV franchises;
- b) the future of ITN;
- c) the future of Channel 4.

The points outstanding are indicated in the record of the PM's summing up on 28 October (attached-B). The MISC 129 meeting on 19 November is now separate from your meeting on 18 November: it will consider Radio only.

**Objective**

2. The underlying Treasury objective is to encourage the development of an efficient, competitive broadcasting industry, capable of seizing the international opportunities ahead. There are important issues

to come on telecommunications policy, spectrum efficiency, subscription and the need to minimise barriers to entry. Tomorrow, however, the Treasury's interest coincides with Mr Hurd's in settling these immediate issues so that they are out of the way when the larger issues have to be addressed, and do not delay the proposed White Paper. So I suggest your objectives for this meeting are:

- a) to help Mr Hurd get these issues settled;
- b) to persuade him, if possible, to recommend the more competitive options in each case;
- c) to encourage the further use of informal Ministerial discussion, which may be useful when the larger issues come forward.

### Handling

3. For this purpose you could

- ask Mr Hurd himself to introduce each of the three agenda items;
- look to the Financial Secretary to speak first to the Treasury interest (a brief on each is attached-C, D and E);
- support this as you judge useful;
- conclude each item by asking Mr Hurd if this gives him the basis on which to report back.

4. Those present will include Professor Griffiths from No.10 and Mr Langdon from the Cabinet Office Secretariat. \*plus Mr Renton, and officials: Hyde (Home Office) MacDonald (DTI) and Mr Gilmore.

5. An important new development is Mr Michael Grade's appointment today to C4. He has been widely quoted as favouring its "privatisation". So the Home Secretary's line on C4 may cut across what C4 themselves want to do.

## Wider context

6. I attach (F) a timetable for reference if necessary.
7. Other broadcasting issues include:
  - a) subscription: analysis developing reasonably well at official level: Home Secretary to put his own proposals to MISC 128 in December;
  - b) independent producers: position improving, but the pressure needs to be kept on, particularly on the ITV companies;
  - c) spectrum efficiency: technical report due by Christmas;
  - d) telecommunications policy: DTI proposals due in the New Year, following current consultative study;
  - e) institutions: PM has asked for review of workings of IBA and Lord Young has circulated Mr John Jackson's proposals for major reform of transmission/franchise/regulation framework;
  - f) BBC external TV service: separate correspondence.

But none of them need be dealt with tomorrow and, if raised, they may tend to distract. In case you judge the opportunity right during the meeting, I have included (G) a speaking note about the underlying policy, and the Government objectives which particular decisions need to serve. But I doubt whether tomorrow's meeting will be the occasion to make any substantial use of this.



B T GILMORE

A. General ITV contracts operating from 1.1.93

- 1. Ownership of companies bidding for contracts or seeking to take over a contract.

Restrictions already proposed:-

- a) No advertising agency to hold contract;
- b) No newspaper proprietor or company to have more than 20% shareholding;
- c) Must be company registered within EC;
- d) No company to have, or invest in, more than one contract; ~~no~~ investor in a company holding one contract to own more than 10% in a company holding another contract.

g

Why so small?

On assumption that criteria must be objective and not at discretion of IBA are there any other restrictions necessary or desirable?

2. Quality Threshold and Reviews of Performance

Proposed quality tests to be applied by IBA to applicants:-

- a) Financial resources;
- b) Programme plans;
- c) Strength of management;
- d) Links with regions.

e) Extra of ~~ambiguity~~ ~~clarity~~ ~~part~~: chm 257

Is it necessary or desirable to add to that list?

Proposals for "Annual Reviews" with possibility of "yellow" and "red" cards.

Can it be avoided?

Is it necessary or desirable that there should be a right of appeal (? to Secretary of State) against red card?

Is it plausible that contractors who had been removed should be able to apply again?

3. Length of Contract

Should it be 10 years (as Peacock proposed) or eight years (as at present)?



# CONFIDENTIAL

## 4. Financial Terms

### Proposals from Official Group:-

- a) Competitive tender on basis of lump sum payable each year of contract;
- b) Levy on advertising revenue per television household in region with progressive structure of rates.

*What other taxes are relevant? Presumably (a) is offset against tax. BSM (a) & (b) are deductible for CT*

*Is (b) to be preferred to a single rate of levy?*

## 5. Other Terms of Contract

- a) At least 25% of independent production;
- b) Participate in networking arrangements;

Is it likely to be necessary to put more than a general statement in legislation of duty on IBA to secure (a) and (b)?

## B. ITN

Proposal to retain the IBA's obligation to ensure the existence of an organisation (ie ITN) to provide news service, and for contractors to have opportunity to have holdings in it.

*no*  
Should other outside minority shareholdings be allowed in ITN?

*much better @ bank 1993*  
Should contractors from ? 1997 be allowed to opt out of ITN and seek news from elsewhere?

## C. Channel 4

Proposal that Channel 4 should retain its present statutory remit, and should sell its own advertising.

Should it in other respects be an ITV contractor on terms, *mutatis mutandis*, as in A above?

*no*  
OR Should it become a non-profit making broadcasting authority?

*no*  
OR Should it be reconstituted as proposed in MISC 128 (87) 9 with income calculated as fixed percentage of ITV and Channel 4 advertising revenue combined?

*Business evaluation*  
**CONFIDENTIAL**

**CONFIDENTIAL**

THE PRIME MINISTER, summing up the discussion, said that the Group were not yet in a position to reach decisions on any of the main issues which had been discussed. The Group agreed that nothing should be done to undermine the high quality news service provided by ITN, but that there might nevertheless be scope within that requirement for steps to ensure they were cost conscious and efficient. The Home Secretary, in consultation with the Secretary of State for Trade and Industry, should therefore further consider the constitution of ITN, taking account of ITN's and the IBA's known views. They should also consider the implications of opening up ITV news services to competition from elsewhere, while providing for the ITN monopoly to continue for a further period of, say, some 3-5 years. On the ITV system generally, the Home Secretary should consider further whether the maximum contract period should be 10 years rather than 8 years: he should also give further thought to the classes of company that might be excluded from ITV franchises under the new system. The Home Secretary, in consultation with the Chancellor of the Exchequer, should give further consideration to the formula for the levy, bearing in mind the attractions of a single levy set at the same rate across the board. They should also consider whether it would be right for the lump sum payable by ITV contractors to be offset against taxation. On Channel 4, the Group agreed that it was essential that the new arrangements made proper provision for the funding of S4C. The Group would resume consideration at a future meeting of the options for reconstituting Channel 4. The Home Secretary should in due course bring forward a further paper on the outstanding items on the future of the ITV system, reflecting the points made in discussion.

The Group -

1. Took note, with approval, of the Prime Minister's summing up of of the discussion.
2. Invited the Home Secretary to bring forward a further paper to the Group on the lines indicated in the Prime Minister's summing up.

Cabinet Office

29 October 1987

**CONFIDENTIAL**

ANX  
B  
PMS  
SUMMING  
UP

**ITV FRANCHISES****Papers**

The basic document is MISC 128(87)8.

**Objective**

Secure agreement on the scheme proposed by Mr Hurd in MISC 128(87)8.

**Points to Make**

The Government's objective is to improve the efficiency of independent television companies. The main elements of the scheme serve that objective. Thus:

- a) competitive tender puts downward pressure on costs;
- b) levy: avoids risk of over-cautious bids;
- c) levy on revenue (not profit): puts downward pressure on costs;
- d) progressive levy related to net advertising revenue per household: helps downward pressure by allowing for variations in profitability (particularly lower profitability of smaller regions) and taxing off growth in NAR during franchise;
- e) transparent selection: to encourage new bidders.

**Other Points**

The Treasury interest in other points listed in Mr Hurd's agenda

is as follows: -

- a) ownership of companies: restriction on interest in more than one franchise seems already unduly restrictive: inhibits competition in bidding;
- b) quality threshold/reviews of performance: effective quality control is the counterpart of competitive bidding on price: annual reviews with "yellow" and "red" cards (ie termination of franchise after due warning) seem sensible;
- c) length of contract: 8 years (as now) seems enough to enable new bidders to see the prospect of commercial success; no particular case for 10, and the longer the franchise period, the less the competitive pressure over time;
- d) financial terms: no particular tax is "relevant" to the levy/bid scheme in the sense that bidders will take account of taxation in bidding. But contractors will pay all company taxes including corporation tax and VAT. Profit for corporation tax will be net of the bid-price, levy and VAT. In the normal course VAT would be paid on all revenue, including the levy, and the levy would therefore be paid on VAT-exclusive revenue. That is how VAT and petrol duty work;
- e) other terms: a duty on IBA seems sufficient;
- f) points not on Mr Hurd's agenda: the tender process should preferably be subject to a reserve price; and we see advantage in the Government making it clear that it would welcome bids from non-producer companies. Given the amount already being argued about, we think both points can be taken in the drafting of the White Paper and need not be raised now.

**ITN****Papers**

The basic paper is MISC 128(87)11.

**Objective**

Persuade Mr Hurd to recommend untying ITV companies from a monopoly source of news material.

**Points to Make**

- ITN is not immune from restrictive practices and high costs. At least 10% of all its employees are paid more than a Cabinet Minister (87 out of 873 paid £35,000+ in 1986). The remarkable degree of protection which it enjoys was necessary to develop an alternative to BBC News. But ITN can now stand on its own feet (as paragraph 4 of the paper amply shows). If it continues to be protected as hitherto, then, with the best will in the world, over time it is likely to degenerate. In particular, the international news market will be a highly competitive one: it will go to those who are efficient, not to those who run at high cost or on a subsidy.
- There seems to be no very good reason to bring in shareholders. ITN hardly need the money; nor is it likely to increase efficiency while they remain so protected. If there is to be a change, however, a separate company for new business may be better, because it will tend to show up the true profitability of non-core activities.
- In any case, however, we should pursue the option of untying. The present degree of guaranteed monopoly is dangerous for

ANX  
D  
ITN

the future efficiency of ITN. Untying the ITV companies is not likely to result in ITN losing ground: it now has the quality and the strength to hold the ground it possesses. But it will tend to improve efficiency by a little competition at the margin, or in particular special sorts of news service, and by the signal to ITN that they have to work for their success.

## Background

The paper by officials arose from concern expressed at the previous MISC 128 meeting that the new system of competitive tender and revenue levy for ITV franchises might make particular ITV companies so cost-conscious that it would have an adverse effect on ITN. That particular concern seems to have receded. We made sure that the paper by officials included the point that ITN is not immune from the restrictive practices and high costs which underlie the Government's concern to improve the efficiency of the broadcasting industry, and that some general pressure for improved cost-consciousness from the new franchise arrangements would be no bad thing. There is, however, a strong ITN lobby which wants to continue the present exceptionally protected position of ITN (monopoly provider of news to ITV companies, compulsorily shown and compulsorily funded), but to take in new capital to expand other activities and to get free of the concerns of ITV companies over its costs.

In practice, news is rather different from other television broadcasting. Standards are particularly sensitive, and at national and international level it requires an established network of communications and journalists to produce it. For this reason, we would accept the arguments in the paper by officials against putting the news contract for ITV to competitive tender alongside other franchises. But the time has come to untie the ITV companies: it should be for them to say how they will fulfil the news responsibilities (including quality) laid upon them. In practice ITN has the quality and strength not to lose ground in any substantial way as a result, but competition at the margin and in particular sorts of news service will help its efficiency.

## CHANNEL 4 (C4)

## Papers

V. pom 622

The basic paper is MISC 128(87)9.

## Objective

To persuade Mr Hurd to recommend that C4 should be a franchise let by competitive tender like others, though retaining its distinctive remit.

## Points to Make

The main points to make are:

- Mr Michael Grade's appointment seems to imply that C4 themselves are interested in "privatisation" in some form.
- Mr Hurd's proposal deals with the limited question of a lack of competition in advertising, but not with the basic issue of developing cost-consciousness and efficiency in broadcasting, particularly in production.
- Continuing to finance C4 from protected revenues will tend to allow restrictive practices and high costs to develop even in a new independent production sector. It will lose the opportunities that lie ahead for an internationally competitive broadcasting industry.
- The distinctive remit of C4 need not be threatened. Competition will be beneficial so long as the contract clearly sets out the kind of service which is wanted and the IBA police both contractors' proposals and the successful contractor's performance. These are exactly the safeguards which are proposed for competitive tendering of ITV contracts generally. It is defeatist to suppose the IBA could not make them work also for C4.

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- Adequate revenues to sustain the remit are available from advertising to the distinctive, high-spending audiences at which C4 is aimed.
- If IBA cannot be relied upon to police this remit, what confidence can be placed in the proposal to make C4 a separate broadcasting authority - which means it would have no regulation but its own?

## Background

Attached for ease of reference is our analysis of Mr Hurd's own proposal that C4 should be reconstituted as a non-profit making independent broadcasting authority, with income calculated as a fixed percentage of ITV and C4 advertising revenue combined.



## FUTURE CONSTITUTION OF CHANNEL FOUR

Different proposals for reconstituting Channel Four (C4) might be assessed according to their impact on a) incentives to respond to consumer preferences; b) incentives for efficient, low-cost production; and c) potential for reducing unfair practices in selling advertising time. (Competition in selling advertising time is unlikely to reduce rates charged, because with a fixed supply of advertising time lower prices reduce rather than increase profits). It is assumed that, for C4 responding to consumer preferences involves broadcasting programmes which are complementary to ITV's, innovative and appealing to minority tastes.

2. The new Home Office proposal involves -
  - a) setting up an independent agency to sell C4's advertising time;
  - b) setting C4's income at a fixed percentage of total NAR (as at present);
  - c) establishing C4 as a separate broadcasting authority.

3. An independent agency seems a good idea so far as it goes: competition with ITV sales would reduce unfair practices and an agency paid at least in part by percentage commissions would have little incentive to continue with the present underpricing of C4 advertising spots. All this would be achieved without reducing C4's incentive to broadcast complementary etc programmes.

4. If C4 does not sell its own advertising time then it would be sensible to continue to set C4's income as a percentage of ITV and Channel Four NAR. However, the Home Office assume that the percentage would apply to pre-levy NAR. If the new revenue levy rates are

progressive rather than proportional, Channel Four's income would grow more rapidly than ITV's and, if NAR is buoyant, more rapidly than expected increases in programme costs (for a given level of quality). We have put to the Home Office a technical amendment to improve this.

5. To make C4 a separate broadcasting authority seems less attractive. It might reduce rather than improve incentives to broadcast complementary programmes. And with only one management to regulate, the authority may be less likely to take an independent view of the quality of its programming. At the least, the Home Office argument for reducing IBA's "monopoly" over ITV regulation needs spelling out in terms of its detrimental effects.

6. Annex I attached compares the impact of the new proposal and the previous suggestion on the three criteria posed above. The key issue is whether improved incentives for efficiency in C and D would offset the arguable risk of adverse effect on programme quality.

## BROADCASTING

## TIMETABLE OF EVENTS

	3 July 86	Peacock Report published
	14 Jan 87	Announcement on licence fee matters/independent productions
	25 Feb 87	Green Paper on Radio published
	10 July 87	DBS contract awarded to British Satellite Broadcasting (BSB)
<hr/>		
<u>1988</u>		
	Spring	Proposed White Paper
	1 April	Introduction of indexed licence fee for 3 years.
	Autumn	"Astra" medium-powered satellite expected to begin broadcasting from Luxembourg
		Introduction of proposed Broadcasting Bill.
<u>1989</u>		
	Autumn	BSB begins broadcasting
		Earliest technical feasibility of MMDS?
		Introduction of second proposed Broadcasting Bill.
<u>1990</u>	1 Jan	ITV contracts extended for 3 years.
	Autumn	New BBC licence fee to be set.
<u>1991</u>		
	Early	IBA advertises new ITV contracts from 1 Jan 1993
	1 April	New BBC licence fee comes into effect
		Target date for independent productions to reach 25 per cent.
	Autumn	New ITV contracts signed, to run from 1 Jan 1993
<u>1992</u>	Autumn	Remaining 2 DBS channels free to be allocated.
<u>1993</u>	1 Jan	New ITV contracts come into effect
<u>2002</u>	Autumn	DBS contract expires for BSB

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## CONFIDENTIAL

## ANNEX G

The Government's objectives in its broadcasting policies include a plural, competitive broadcasting industry responsive to consumer choice. This matters not only for efficiency in broadcasting but for its effect elsewhere in the economy - minimising costs, releasing resources, avoiding repercussions from high pay and restrictive practices. And there is a huge international business to be won by a healthy competitive industry.

2. To that end the task of government is to provide a "level pitch", not to prefer and protect "chosen players". The experience of cable so far (very few takers, in spite of the protection offered) serves to underline yet again the moral that governments which base their policies on "backing winners" are all too likely to get it wrong. Particularly so in this field, where technical factors are changing very quickly, and where market factors are even more difficult than usual to divine because there has hitherto been no market.

3. A policy of competition has to minimise obstacles to entry in the first place. It now looks as if there may be new players in broadcasting. They may or may not succeed; but it would be foolish to inhibit them from even trying. This is the background to the question of spectrum efficiency, a fifth UHF channel and MMDS.

4. The dominant and privileged position of the duopoly presents another important obstacle to entry. Faced with four familiar channels free at the point of consumption (and with other advantages), any new service financed by subscription, or requiring expensive new equipment, faces a high commercial hurdle. For the BBC one way to lower this hurdle would be to reduce the flbn licence fee income when the present decision expires in April 1991, leaving the BBC free to compete with others for subscription income. A complementary measure might be to remove some amount of air-time, as Jonscher recommended.

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5. These decisions lie ahead. But the policy objectives are the framework for all our decisions. We cannot expect to get a plural, competitive industry and all the benefits thereof if each time we look at a particular issue - franchises, ITN, C4 - we turn away from the competitive solution.

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CH/EXCHEQUER ✓	
REC.	20 NOV 1987 20/11
ACTION	Mr Gilmore
COPIES TO	CST. FST PMG EST
	SIR P. Middleton
	MR Anson Mr Kemp
	MR Monck Mr Mountfield
	MR Butt MR P.G.F. Davis MR Cropper MR Tyne MR Call

Foreign and Commonwealth Office

London SW1A 2AH

20 November 1987

Dear Charles

External Television Broadcasting

The Foreign Secretary has seen your letter of 6 November and subsequent minutes from the Chancellor, Home Secretary and Secretary of State for Trade and Industry.

There is a consensus that the present BBC proposal is a major improvement on past plans, not least because the BBC are for the first time ready to take a significant commercial risk. There is also clear concern, which the Foreign Secretary shares, to ensure that Ministers' decision should not give the BBC any unfair advantage over ITN.

The Foreign Secretary sees the problem as being how to take account of the very significant differences between the BBC and ITN. The Home Secretary rightly points out that we do not start with a level playing field. ITN also realise this. They have all the normal commercial channels for raising risk capital, through ITV. The BBC and the external services, by contrast, face important constraints:

- the external services can spend their grant-in-aid only in accordance with our decisions on priorities;
- the BBC cannot borrow money or give guarantees without government approval;
- BBC enterprises do not have adequate resources to get a service off the ground;
- licence fee money cannot be used for programmes aimed primarily at overseas audiences.

The Foreign Secretary gave careful thought to the possibility of simply inviting tenders from the BBC and ITN. But he came to the conclusion that this was not feasible, given the very different circumstances of the two organisations as explained above. ITN have in any case not formally submitted alternative proposals, nor do they wish to work on the basis of FCO prescription, as the external services now do.

The Foreign Secretary does not exclude support for distribution of the ITN product (or anyone else's), on its merits, in the light of our overall information objectives. We have this week confirmed with Mr David Nicholas that ITN would wish to be able to bid for this. ITN are in any case contractually committed, for the next 2½ years at least, to producing Superchannel in its present format.

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ITN's fundamental concern is about competition from what they have described to us as a "Rolls Royce" BBC service funded by HMG. Having looked afresh at it, Sir Geoffrey Howe remains convinced that this understandable concern would be substantially met by a decision which precluded any significant new money for the BBC. He is confident that this could be successfully presented to ITN, to the public generally, and in Parliament.

The Foreign Secretary has thought very carefully about Lord Young's suggestion that funding should be made available to the BBC on commercial terms, rather than as a grant. But here too there are problems of comparing like with like. A grant, repayable over a longer period, could also risk embroiling us in negotiations over longer term support of the BBC's service, perhaps involving further requests for loans or delay of repayment.

The Foreign Secretary has also reconsidered the extent to which external television broadcasting would make an effective impact on our priority third world and closed society target audiences. He believes that external TV can become an important element in our overseas information effort worldwide. Although the service would be directed at our priority targets, it makes sense also to take advantage of the significant potential for contributory revenue from the OECD countries. It is in the vernacular radio services to these countries that he would be looking primarily for the BBC to make immediate savings to meet the costs of pump-priming for TV.

Against this background the Foreign Secretary hopes that the Prime Minister and colleagues can now agree that he should offer to reallocate a small element of the BBC's present grant-in-aid to enable them to get an external TV service off the ground. The BBC service would then have to stand on its own feet, on a par with ITN. It could then make no call on public funds, except for distribution and in competition with other broadcasters. The Foreign Secretary would, of course, continue to bear in mind the points on funding and sponsorship made by the Chancellor and Home Secretary respectively. And any reductions in radio services to release funds for TV would of course be taken into account in setting the next triennium funding.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (Home Office), Tim Walker (Department of Trade and Industry) and Peter Smith (Chancellor of the Duchy of Lancaster's office).

*Done*

*R N Culshaw*

(R N Culshaw)  
Private Secretary

C D Powell Esq  
10 Downing Street

*com*



10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	23 NOV 1987 23 11
ACTION	MR GILMORE
COPIES TO	CST FT AIG EST SIR P MIDDLETON MR ANSON MR KEMP MR MONCK MR MOUNTFIELD MR PG F DAVIS MR BULL MR CROPPER MR TYRRE MR CALL

From the Private Secretary

21 November 1987

Dear Robert,

EXTERNAL TELEVISION BROADCASTING

Thank you for your letter of 20 November conveying the Foreign Secretary's further views on the question of external television broadcasting.

The Prime Minister still takes the view that the Foreign Secretary's proposals would give the BBC an unfair advantage over ITN in this matter. She thinks it is a case where competition should apply and would wish to see both BBC and ITN invited to submit proposals. She would also wish to see more details of what the Foreign Secretary has in mind when he says that he 'does not exclude support for distribution of the ITN product'.

From earlier correspondence, there seems to the Prime Minister to be considerable support amongst colleagues for an even-handed approach between BBC and ITN. She hopes therefore that the Foreign Secretary will not be ready to invite tenders for the proposed service from both of them.

I am copying this letter to Alex Allan (H M Treasury), Philip Mawer (Home Office), Tim Walker (Department of Trade and Industry) and Peter Smith (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely,  
C. D. Powell

C. D. POWELL

R. N. Culshaw, Esq., M.V.O.,  
Foreign and Commonwealth Office



FROM: P G F DAVIS

DATE: 27 November 1987

CHANCELLOR

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the moment?**(PMP)**OK. ? (over). mpsw  
(see also) ✓ hypo 27/11*cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Anson  
Mr Kemp  
Mr Monck  
Mr Gilmore  
Mr Mountfield  
Mr Burr  
Mr Denison  
Mr Cropper  
Mr Tyrie  
Mr Call

## EXTERNAL TELEVISION BROADCASTING

The Foreign Secretary's Private Secretary's letter of 20 November to No 10 responds to the concerns expressed in your minute to him of 9 November. He promises to bear in mind the points you made on funding, and in particular to take in to account any reductions in radio services to release funds for TV in setting the BBC grant for the next triennium. On effectiveness and value for money a firmer assurance would have been better, and there is no response to your suggestion of official discussions. But your other concern, for an even-handed approach between BBC and ITN, has been picked up by the Prime Minister in the reply from No 10 of 21 November. We do not think you need say anything further at this stage.

*6*

P G F DAVIS



Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

30 November 1987

The Rt Hon Douglas Hurd CBE MP  
Secretary of State for Home Affairs  
Home Office  
50 Queen Anne's Gate  
LONDON  
SW1H 9AT



*Row Taylor,*

#### BROADCASTING SPECTRUM STUDIES

Our two studies into a possible fifth television service at UHF and into the feasibility of MVDS to deliver additional television services are proceeding well, and reports on both studies should be available before the end of the year.

I have however become conscious of a growing pressure to consider also the potential for an additional television service to share VHF bands I and III with the new mobile radio services in these bands.

VHF bands I and III are of course still available for television broadcasting under the International Radio Regulations, and indeed are still used extensively for this purpose by most other European countries and the USA. It is one reason why Charles Jonscher and others can claim that other countries provide more television services than we do.

The arguments which led us to withdraw this spectrum from the broadcasters when 405-line transmissions ceased, in order to allow for the expansion of mobile radio urgently needed by the business community, still hold good. There can, in my view, be no question of displacing the new services now operating in these bands or of going back on firm commitments already made. But I now believe that, for the sake of completeness if nothing else, there would be merit in an additional - and quick - study into the extent to which an additional television service might be able to share this spectrum with mobile radio.

DW4CTV



The objective would be to enable us to include this option along with UHF and MVDS in the decisions we shall need to reach early next year. I would therefore seek a report before the end of January.

If you agree, I suggest that the study could most conveniently be undertaken by broadly the same interdepartmental group, with assistance from the two broadcasting organisations, which is now well advanced with the UHF study, though I believe that there is no CAA involvement in this spectrum.

The announcement of this study might well cause considerable concern to existing and prospective users of bands I and III and to their providers of equipment and services. I am far from convinced that sufficient spectrum can be found to provide worthwhile coverage for a television service and I would not wish to alarm the mobile radio lobby unnecessarily. I therefore propose a low-key press announcement which would present the study as no more than an extension of the existing UHF study.

I am copying this letter to the Prime Minister, to MISC 128 colleagues and to the Secretary to the Cabinet.

A handwritten signature in black ink, appearing to read 'Lord Young of Graffham', written in a cursive style.

LORD YOUNG OF GRAFFHAM