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PREM 19/2593

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24/35

Confidential Filing

Broadcasting Policy
Television Licence Fees

Finances of the BBC

Pay of the BBC

World Television News

BROADCASTING

PT 1: July 1979

PT 7: October 1988

attached folder: Draft White Paper: Broadcasting in the 90s
Draft White Paper: Broadcasting in the 90s
Comments of PACT Corp. "Is American Television That Bad?"

Referred to	Date + IEP	Referred to INQUIRY Report	Date entered	Referred to "Is American Television"	Date	Referred to "That Bad"	Date
11-10-88	-						
18-10-88							
19-10-88							
26-10-88							
9-11-88							
11-11-88							
6-12-88							
12-12-88							
13-12-88							
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29-12-88							
18-1-89							
2-2-89							
8-3-89							
17-5-89							
22-5-89							
31-5-89							
17-4-89							
14-4-89							
27-4-89							
Parents							

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PART 7 ends:-

Home secto SS/DTI 27.4.89

PART 8 begins:-

PG W DTI 2.5.89

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Draft White Paper: 'Broadcasting in the 90's: Competition, Choice and Quality' The Government's plans for broadcasting legislation
CM 517

Signed G. Dupon Date 28/06/2016

PREM Records Team



NBSM

RAG

28/4

ccfu

QUEEN ANNE'S GATE LONDON SW1H 9AT

27 April 1989

Dear David,

THE CHOICE OF FREQUENCIES FOR MVDS

attached

Thank you for your letter of 24 April about the choice of frequencies for MVDS.

I agree that at this stage we should go no further than ruling out the 2.5 GHz and the 27-29 GHz bands, while leaving open the possibilities at 12 GHz and 40 GHz until the cable industry has had a chance to assimilate the April announcement and your proposed discussion paper. It would certainly be desirable to bring uncertainty to an end soon, but I agree that it is more important to get this decision right than to make an early announcement. I hope, however, that we will be in a position to make a firm decision by the summer recess.

I am content with the form of words which you propose for inclusion in the April announcement.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

Yours,
David



*me from
ceby*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

27 April 1989

PRIVATISATION OF THE TRANSMISSION SYSTEM

The Prime Minister has seen the Home Secretary's letter of 25 April to the Secretary of State for Trade and Industry. She is content with his proposal for early publication of the Price Waterhouse report.

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

Paul Gray

Miss Catherine Bannister,
Home Office.

CONFIDENTIAL

[Handwritten signature]

dti

the department for Enterprise

ce P. U.

CONFIDENTIAL

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

NBM

Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home
Department
Queen Anne's Gate
London
SW1H 9AT

*RC6
28/4*

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Trade and Industry

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Our ref PB4AZJ

Your ref

Date 27 April 1989

John Taylor

- attached

Thank you for your letter of 25 April about the Price Waterhouse study on options for privatising the television and radio transmission system.

It is encouraging that the consultants have found the idea of privatisation a feasible one and I look forward to our discussion on this subject in June.

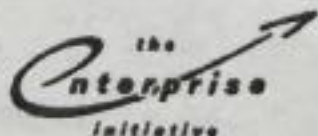
Meanwhile, I support your suggestion that the report should be published quickly. It should help promote an informed debate and, provided that we do not endorse its conclusions, should not in practice fetter our own decision making.

You intended to point out, I understand, that the one sensitive point in the report's conclusions was that privatisation would lead, at least initially, to higher prices for transmission. This is, as you say, balanced by the greater spur to efficiency given by privatisation in the long term. I think we have to be prepared to defend such a line - and that we can do so successfully should we eventually decide to proceed with privatisation. On balance, therefore, I am content for it to be left in.

I understand our officials are in touch over any commercially or otherwise confidential information which needs to be omitted.

I am copying this letter to the recipients of yours.

John Taylor


the
Enterprise
Initiative



BROADCASTING: 106 117.

cc-PM



Covering
CONFIDENTIAL

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

26 April 1989

Abm
Rec
2/4

Dear Neil Thornton,

PRIVATISATION OF THE TRANSMISSION SYSTEM

WMPG
The Home Secretary wrote to your Secretary of State yesterday (25 April) about the Price Waterhouse study on the privatisation of the television and radio transmission system.

Part of the third paragraph was inadvertently omitted on the version of the letter issued and I would be grateful if you, and copy recipients, could insert the attached revised version of the third paragraph in to your copy of the letter.

Yours sincerely
Celia Boyle

CELIA BOYLE
Assistant Private Secretary

Neil Thornton, Esq
Private Secretary
Department of Trade and Industry

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The immediate question facing us is the publication of the report. Although we have not undertaken to publish it there is a strong expectation that it will be published. I would favour publication, not least because it could be valuable to have expert outside comment on Price Waterhouse's conclusions. The only sensitive point about publication is the report's conclusion that privatisation could lead to an initial increase in transmission charges in order to form a dividend stream for shareholders, which might however be recouped through efficiency savings in the longer term. (At present neither the BBC nor the IBA are required to earn a return on their transmission assets). If there is criticism of the privatisation proposal on this score we can counter it by pointing to the report's conclusion that privatisation would provide a greater spur to efficiency in the longer term.

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BROADCASTING : P.M. pr. 7.



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PRIME MINISTER

PRIVATISATION OF THE TRANSMISSION SYSTEM

You saw the attached letter from the Home Secretary, Flag A, earlier this afternoon.

We had both been struck by the oddity of the sentence at the bottom of the first page. In fairness to the Home Secretary, it now appears a crucial passage had been left out of this paragraph; a revised expanded version at Flag B has just been circulated. This makes a good deal more sense!

Yes

Can I take it you are content to endorse the proposal for early publication of the study?

Sara Howe
(Duty Clerk)

Yes

PAUL GRAY

26 April 1989

CONFIDENTIAL

The immediate question facing us is the publication of the report. Although we have not undertaken to publish it there is a strong expectation that it will be published. I would favour publication, not least because it could be valuable to have expert outside comment on Price Waterhouse's conclusions. The only sensitive point about publication is the report's conclusion that privatisation could lead to an initial increase in transmission charges in order to form a dividend stream for shareholders, which might however be recouped through efficiency savings in the longer term. (At present neither the BBC nor the IBA are required to earn a return on their transmission assets). If there is criticism of the privatisation proposal on this score we can counter it by pointing to the report's conclusion that privatisation would provide a greater spur to efficiency in the longer term.

CONFIDENTIAL

AK



Prime Minister

QUEEN ANNE'S GATE LONDON SW1H 9AT

Seems a very useful study. Brian Griffiths strongly supports early publication. Content to endorse the Home Secretary's proposal? 25 April 1989

Dear David.

PLC 6 26/4

PRIVATISATION OF THE TRANSMISSION SYSTEM

Price Waterhouse have now completed the study on options of the privatisation of the television and radio transmission system. I attach a copy of the executive summary of their report.

The report identifies 2 options for privatisation. The preferred option would be to privatise the system as 2 separate national companies, each with an even spread of transmission stations throughout the country. These companies would not be the direct descendants of the BBC and IBA transmission operations: the assets would be rearranged in such a way as to disentangle the existing BBC and IBA options. Although Price Waterhouse see this as the best option they note that implementation would not be straightforward. They therefore propose as a fall-back option the privatisation of the BBC and IBA transmission operations in their existing form.

The implementation of either of these options would require the inclusion of enabling provisions in next session's broadcasting legislation. In order to allow time for the preparation of the necessary legislation we need, as I noted in my letter of 19 December, to have decided by the end of June how we wish to take this forward. To this end, I have asked my officials to begin immediate consultations with the BBC and the IBA about the Price Waterhouse report, and then to work up proposals through the MISC 129 machinery for our collective consideration.

No official committee supporting MISC 129.

The immediate question facing us is the publication of the report. Although we have not undertaken to publish it there is a strong expectation that it will be published. I would favour publication, not least because it could be valuable to have expert outside comment on Price Waterhouse's conclusions. The only sensitive point about publication is the report's conclusion that privatisation would provide a greater spur to efficiency in the longer term.

!!! PLC 6.

/I would

The Rt Hon Lord Young of Graffham
Department of Trade and Industry

CONFIDENTIAL

2.

I would see advantage in publishing the report as soon as possible without endorsing its conclusions, rather than delaying publication until we are in a position to say how we propose to take this issue forward. If we decided to delay publication officials would still need to consult the broadcasters in the meantime, and there is an inevitable risk that the report's conclusions would be made public in some form. If you and other MISC 128 colleagues agree, I will therefore arrange for early publication of the report by HMSO. In practice I understand that this should take about a month.

I am copying this letter to the Prime Minister, other members of MISC 128, the Foreign Secretary and to Sir Robin Butler.

Yours,

Douglas

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STUDY OF PRIVATISATION OPTIONS FOR THE TERRESTRIAL BROADCASTING
TRANSMISSION NETWORKS

SECTION 1 : EXECUTIVE SUMMARY

- 1.1 In November 1988 the Government published its White Paper entitled "Broadcasting in the 1990's: Competition, Choice and Quality". Among other things the White Paper said that the Government's intention was to separate the provision of UHF (ie television) services from their delivery (ie transmission). The White Paper went on to say that the Government considered the best arrangement in due course would be a regionally based privatised transmission system designed to promote competition, whilst containing certain common carrier obligations.
- 1.2 As a consequence of the White Paper commitment the Home Office and DTI jointly commissioned Price Waterhouse in February 1989 to examine the options for privatising the terrestrial transmission systems of the United Kingdom. The remit of the study was extended beyond the White Paper, to take account of the radio transmission networks including that for the World Service. The terms of reference required the study to examine options which would allow the transfer of transmission into the private sector, increase where possible the level of competition and take account of the possibility of regionalisation. An overriding consideration was that quality and coverage of service was to be maintained.
- 1.3 From the outset it was recognised that the present arrangements have a number of built in restrictions which may be difficult to remove. In particular, UHF broadcasting takes place via a set of transmission stations, carefully arranged to give full national coverage, which are jointly used by the BBC and IBA.
- 1.4 A second complication has a direct bearing on the timescale within which change can be effected and to which attention was drawn in the White Paper. The BBC transmission responsibilities are rooted in its Charter, which runs until the end of 1996. On the other hand, the Government intends that the Independent Television Commission (ITC) should come into being in 1991 and at that time take over those regulatory activities of the IBA which it is envisaged should continue. That would be the natural time for the IBA's transmission activities to be separated out and possibly moved into the private sector.
- 1.5 This study has been carried out against this background.

THE PRESENT SYSTEM

Programmes

- 1.6 The BBC are responsible for the production of programmes and their transmission. The IBA is responsible for oversight of independent programme companies and providing transmission facilities for them. The BBC transmit two national television channels, 4 Radio Channels, local and regional radio services and the BBC World Service. The IBA are responsible for the transmission of two national television channels, one of which can simultaneously transmit separate programmes in different parts of the country (ITV), together with the independent local radio stations.

SECTION 1 : EXECUTIVE SUMMARY (continued)

Transmission

- 1.7 The requirement for transmitting television and VHF radio signals differs from that for the other broadcasting radio frequency bands. Television and VHF require a virtual line of sight from the transmitting aerial to the receiver. The array of masts for national coverage is therefore large. In practice both can be carried out from the same mast and this is normally the case. The other radio transmission bands need far less sites to give full coverage and are not carried out from the same sites as the television and VHF transmissions.

Financial arrangements

- 1.8 The transmission functions of both the IBA and the BBC are funded on a cost covering basis. They could be regarded as user cooperatives. Neither organisation has set up its transmission activities as a trading fund. In the case of the BBC management pressures are towards cost reduction; any savings on transmission allow increased expenditure on programme production. In the case of the IBA, the situation is different as the programme makers are entirely separate organisations from the IBA. However any operating surplus must be returned to the programme companies.
- 1.9 Neither IBA nor BBC transmission activities are financed to provide a return on the investment. Since any notional return is returned to the users it is a form of cross subsidy to programmes. There is little genuine financial incentive to cut costs. The integrated nature of the BBC creates greater internal pressure for cost savings than is the case in the IBA.

Regional variations

- 1.10 There are considerable differences in the regional costs of providing transmission services, whether this is measured by the number of people served or the physical area covered. As an example the Crystal Palace transmitting station in London provides television coverage of the whole of the London area and is therefore very cost effective. By contrast, in Scotland and Wales, mountainous terrain means that a large number of transmission stations are needed in order to give geographic coverage in regions where the population density is small.

THE OPTIONS

- 1.11 Whilst a very large number of options might be considered they can be reduced into three classifications based on geography:
- * the present system with two independently operated and maintained, but entwined systems (both a BBC and IBA presence on most television/VHF radio sites)
 - * a number of local monopolies which could be grouped nationally in a variety of ways

SECTION 1 : EXECUTIVE SUMMARY (continued)

* regional organisations, either as groups of local monopolies or as a subdivision of existing arrangements.

- 1.12 None of these feasible options would provide sufficient competition to remove the need for regulation.
- 1.13 In addition the geographic options could each be subject to a requirement to contract out the maintenance work. Also, the ownership could be separated from operations; this would lead to a form of franchising with ownership of the assets of the transmission networks either left in the public sector or considered as part of the franchising arrangements.

The Present System

- 1.14 The White Paper acknowledges that the UHF transmission networks run by the BBC and the IBA give a highly effective service to the public in reaching 99.4% of the households in the UK and providing a reliable high quality signal. There is nothing inherent in the service which demands public ownership in order to maintain standards. Moreover the present system is not structured financially to provide an efficient allocation of capital or correct financial pressures on costs. There is therefore a prima facie case for transferring ownership of the two organisations into the private sector.
- 1.15 The principal disadvantage of so doing is that this would not add direct competitive forces into the market for the present services. Unless there was a major structural change the successor company to be derived from the BBC would continue to provide services for the continuing BBC programming operation. A similar situation would exist for the independent programme companies. Although there could in principle be direct competition between the two new companies in offering new transmission facilities for Channel 5, and possibly in due course, Channel 6, the existing ownership of sites would mean that national coverage would require new agreements between the provider of the transmission service and the landlord of sites on which the transmission company was a tenant. If unconstrained this would negate any competition.
- 1.16 Privatisation would need to be accompanied by price regulation and control over the standards of service provided. Whilst the regulatory body would be able to obtain some information on comparative service standards it would not be based on comparative judgement of users since no user would experience the services of each company (at least prior to the introduction of Channel 5).

Groupings of local monopolies

- 1.17 Each mast from which transmission takes place is a local monopoly, and nationally there are over 1,100 of them. However, most of these are for television and VHF radio broadcasting and are not independent of each other. Broadly they consist of some 51 main transmitting stations to

SECTION 1 : EXECUTIVE SUMMARY (continued)

which are coupled some 800 relay stations whose purpose is to extend the geographic coverage of signals sent out from the main station. Ownership of the transmitting stations is split between the BBC and IBA at present. At present both the BBC and IBA transmit from each station, using the same masts and normally the same aerials.

- 1.18 Ownership and operations could be rearranged so that a particular main site and its relays would be owned and operated by a single body hence removing the present entwinement. In practical terms therefore the largest number of local monopolies for television and VHF radio would be 51, ie each of the main transmission stations with their associated relay stations. There would be some loss of economies of scale in having such fragmentation. However the 51 local monopolies could be combined in a number of ways to gain economies of scale whilst encouraging competitive forces.
- 1.19 The competitive forces would not be direct and regulation would again be needed. New entrants to the market would be unlikely because of the limited opportunity for additional masts although some old masts previously used for 405 line television are now under-utilised. Comparison between suppliers would arise because programme companies would in most cases have to contract with more than one independent transmission company, particularly where the programme was to be given nationwide coverage. The programme companies would have a direct measure of service provided. This would be an important element of the regulatory system, providing pressure to reduce costs whilst maintaining, or even improving, standards of service.
- 1.20 The minimum number of groupings which would allow competition by comparison would be two, provided that each had sites equitably distributed through the country. Two such national monopolies would retain maximum economies of scale. A two company arrangement would retain the manpower and organisation of the present IBA and BBC. The change would be in ownership of sites and elimination of their dual operation and involve additional overheads. They would require new management structures. Smaller groupings would give some additional competition by comparison but would lose some of the economies of scale.

Regional organisations

- 1.21 The groupings of local monopolies could be arranged on a competing regional basis. In that case the comments on the alternative arrangements described above would still apply. Alternatively the regional arrangement could be a set of regional monopolies. This is not an attractive approach:
- * It would do nothing for competition. Differences in local geographic circumstances would render competition by comparison largely ineffective.
 - * A second problem, which would also apply to many groupings of local monopolies, would be the difficulty of handling regional cost variations. If the present cross subsidisations were to be continued the ITC would need to act as the customer for transmission facilities on behalf of the independent programme companies.

SECTION 1 : EXECUTIVE SUMMARY (continued)

Contracting out

- 1.22 Obligatory contracting out of maintenance offers the immediate attraction of direct competition, as companies formed out of the existing organisations could compete with each other to maintain the networks and would provide an incentive for new companies to enter the market. But there is a risk of failing to maintain the essential level of highly skilled people. Some contracting out might be acceptable but the judgement should be a matter for management. Where management contracted out voluntarily and achieved cost savings, such savings could be shared with users through the regulatory process.

Ownership and franchising

- 1.23 Franchising of operations and maintenance could be achieved if the assets were left in the public sector. That would deny true privatisation and prevent market allocation of capital. A form of franchising whereby a franchisee took ownership of the assets for a fixed period is attractive at first sight. However there would be serious difficulties in deciding on asset transfer values and ensuring that franchisees maintained the assets in good order particularly in the run up to a tender competition.

OTHER CONSIDERATIONS

- 1.24 Three further considerations are worth noting:

Training

- 1.25 The maintenance and operation of television and radio networks relies on a high degree of technical skill. Whatever option is chosen, continuation of technical competence should not be put at risk. Both the BBC and the IBA have extensive training programmes which are most likely to continue in large successor organisations.

Programme distribution

- 1.26 The process by which radio and television signals are taken from studios, either to other studios to be combined with further elements of the programme or to transmitting stations, is complex. It largely takes place through links provided by British Telecom. At present programme suppliers deal with a single organisation (either the BBC or the IBA) in order to have these arrangements put into effect. If the industry were to be fragmented into a significant number of transmission companies programme suppliers, particularly those seeking national coverage, would face significant added organisational complexities.

Research & development

- 1.27 Both the IBA and BBC undertake research which in part is directed at ensuring that terrestrial broadcasting remains competitive against emerging technologies such as cable or Direct Broadcasting by Satellite. Whilst this could be funded through a trade organisation it could be at risk if the industry were to be over fragmented.

SECTION 1 : EXECUTIVE SUMMARY (continued)

CHOICE OF OPTION

1.28 We reached a preferred option by making a judgement on the balance between:

- * economies of scale
- * practicability
- * the need for competitive pressures
- * the need to be attractive to investors
- * preservation of a skilled workforce
- * minimisation of organisational complexity and disruption
- * the need for continuation of some research and development.

1.29 In our view the balance would be best achieved by having two similarly sized organisations each responsible for approximately half of the transmitting sites in the UK equally distributed throughout the country. Each company would have responsibilities for both TV and radio transmissions. The companies could each be described as a patchwork quilt of local monopolies. Each national programme company would need to deal with each of the two transmission companies. Some local programme companies would deal with one transmission company only.

Regional companies

1.30 Whilst each of these transmission companies could be split up into regional activities it seems unlikely to produce significant benefits whilst there is likely to be some loss, albeit modest, of economies of scale. But there are no technical reasons why it could not be achieved. There would also be added disruption and the need to find new management teams.

Distribution of programme signals

1.31 A separate decision is required on the functions for which transmission companies might be responsible. Whilst there is no doubt about the transmission of signals once they have been delivered to transmitting stations, there is room for debate about responsibility for the delivery of signals from studios to the transmitting stations and possibly between studios. At present the operational responsibility for this is largely a matter for British Telecom. Other operators, with the exception of Mercury Communications, are barred from offering facilities, although in certain instances this function is carried out by the BBC and the IBA under licence where British Telecom and Mercury Communications are unwilling or unable to do so.

1.32 If transmission companies were allowed to provide these facilities they would be more attractive to investors and in due course could provide extra competition in communications more generally. This is a matter which should be taken into account in the forthcoming duopoly review. Meanwhile it would seem sensible for there to be no restructuring of the transmission arrangements which would prevent entry by the new companies into the distribution business if that were to be favoured by the review.

SECTION 1 : EXECUTIVE SUMMARY (Continued)

TIMING CONSIDERATIONS

- 1.33 Re-organisation along the lines of local monopolies would take time and would also require a change to the BBC's Royal Charter in order that assets could be redistributed as necessary between the BBC and IBA systems. There would be some reorganisation costs compared with present arrangements in order that each new organisation had appropriate spares to cover the wider range of equipment which each would need to maintain. There would also need to be some re-engineering of the monitoring and control systems. It would be expected that these costs would be recovered in due course through added efficiency. In all these changes might take as long as four years to bring into effect.
- 1.34 We believe that the option we have selected would be in the best interests of all parties concerned. However, if changes to the BBC's Royal Charter are impracticable and, given the need to find a solution for the IBA in the short term, we consider that the transmission systems could be privatised along the lines of the existing arrangements.
- 1.35 Both the preferred two company option based on groupings of local monopolies and leaving the structural arrangements as at present could be regionalised. There are risks to standards of service in so doing and no immediately obvious benefits.

TRANSMISSION FACILITIES FOR THE WORLD SERVICE

- 1.36 The operation and maintenance of the World Service transmission facilities are an integrated part of the BBC's overall transmission activities. The assets in the UK and most of those overseas are the BBC's but two overseas stations belong to the Foreign Office and will continue to be bound by international treaties.
- 1.37 Apart from the matter of this foreign ownership there is an underlying difficulty in attempting to transfer ownership of the assets into the private sector. The World Service is funded by the Foreign Office from money voted by Parliament. Whilst the past record suggests long term continuity the Foreign Office is not in a position to guarantee at any particular time continued need for the facilities for more than the three years of the Public Expenditure Survey. Any sale would effectively be that of a short term income stream and would be very unattractive.
- 1.38 The way forward would be to leave the assets in the public sector. The management, operation and maintenance could then be contracted out to one of the new transmission companies.



FILE
EAM

cc PJ

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

25 April 1989

Dear Catherine,

BROADCASTING MEETINGS

In the light of yesterday's MISC 128 discussion, the Prime Minister has considered further the possibility of an informal meeting at No 10 on quality in broadcasting, to which representatives of smaller regional ITV companies and others might be invited (your letter of 14 April to Andrew Turnbull suggested some possible names). The Prime Minister has concluded that it would not be appropriate to pursue this possibility further.

The next meeting of MISC 128 itself is currently scheduled for 11 May. The Prime Minister understands that the Home Secretary would like George Russell to make an opening presentation at that meeting; she would be content for Mr Russell to come to the first part of the meeting for that purpose.

I am copying this letter to the Private Secretaries to members of MISC 128 and to Sir Robin Butler.

CWO NIO
DTI Ro
WO
HMT
SO

Yours,
Paul

PAUL GRAY

Miss Catherine Bannister
Home Office

dt



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 April 1989

Dear Gareth,

MISC 128: MONITORING THE 25 PER CENT INITIATIVE

The Prime Minister was grateful for your Secretary of State's minute of 6 April. She has also seen the Home Secretary's letter of 13 April and the Chancellor's minute of 14 April.

The Prime Minister is concerned to note the difficulties in assessing the extent of the BBC's moves towards the 25 per cent figure and has noted the Corporation's unwillingness to provide detailed information voluntarily. Against that background she considers it will be necessary to add a clause to the forthcoming Broadcasting Bill which requires the BBC each year to satisfy the Office of Fair Trading that 25 per cent of programme production is coming from independent producers; this might be made a condition of the BBC licence or of the monopoly use of certain wave-lengths. The Prime Minister wishes this issue to be added to the agenda of the forthcoming series of MISC 128 meetings.

I am copying this letter to the Private Secretaries to members of MISC 128 and Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Gareth Jones, Esq.,
Department of Trade and Industry.

dti

the department for Enterprise

CTU

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

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

Prime Minister ²
Both Douglas Hurd
and Brian Griffiths
have now indicated they
are content with
this approach.

Department of
Trade and Industry

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Direct line 215 5422
Our ref PS1CKU
Your ref
Date 24 April 1989

REC 6
28/4

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Dear Home Secretary,

THE CHOICE OF FREQUENCIES FOR MVDS

Paragraph 6.39 of the Broadcasting White Paper addressed a number of possible options for the choice of frequency band for MVDS in the new technology - neutral local delivery franchises, but left open a final decision. This letter suggests a way forward for inclusion in your April statement on local services.

Officials have reviewed the frequency options, and have found little difficulty in narrowing the options to the two bands around 12 GHz and 40 GHz, although they recommend that we leave open the possibility of 2.5 GHz for exceptional use in Northern Ireland where particular considerations apply. The choice between 12 GHz and 40 GHz is rather less obvious, particularly since they offer rather different characteristics and a different balance of advantages and disbenefits. Indeed, the right answer may well be to offer frequencies in both bands.

These are, however, important decisions, and we have therefore been particularly anxious to establish from the potential users of MVDS - who at this stage can really only be identified as the cable interests - the ways in which they



would in practice be likely to want to deploy MVDS, and the technical characteristics to which they would as a result attach highest priority.

The cable operators have, however, not shown much interest in MVDS (except at 2.5 GHz in advance of legislation which, as you know, is not possible for content reasons as well as spectrum constraints). This may, at least in part, be caused by uncertainty over the local services regime after legislation and, in particular, the White Paper proposal that in order to be allowed to use MVDS, an operator would no longer be allowed to retail the services on his system.

Without a better indication from the potential customers for MVDS as to what they want, I am reluctant to allocate frequencies and thereby tie them up for many years. I propose therefore to issue a consultative paper early next month so that all interested parties can consider the narrowed choice of options in the light of our revised and now definite proposals for the overall local services regime.

I recognise the undesirability of continuing uncertainty, but I think it better that we address the decision informed by the views of the prospective users of MVDS rather than risk forcing the new service into a technical mould unsuited to the commercial realities.

... I attach a form of words which you may wish to include in your statement.

I am sending copies of this letter and of its attachments to the Prime Minister, to our MISC 128 colleagues and to Sir Robin Butler.

Yours sincerely,

(Approved by the Secretary of State and signed in his absence)

DRAFT PARAGRAPHS ON THE CHOICE OF FREQUENCIES FOR MVDS FOR INCLUSION IN THE
APRIL STATEMENT ON LOCAL SERVICES

We have given further thought to the choice of frequencies for MVDS. We have concluded that the pressures on the 2.5 GHz band, the uncertainties surrounding possible future international developments and the limited amount of spectrum that could at best be made available combine to make this band unsuitable for MVDS. We have also ruled out the band 27 - 29 GHz since the 40 GHz band has similar characteristics and the significant advantages of larger amounts of spectrum, no existing incumbents and is, in part, internationally designated for broadcasting.

The White Paper also canvassed the possibility of frequencies being made available in the 12 GHz band. This band and that at 40 GHz have different characteristics and competing advantages and disadvantages. We shall need to consider further from which band, or bands, frequencies should be allocated to MVDS.

In order to assess the reactions of potential users, now that the rest of the local services regime has been decided, the Department of Trade and Industry will issue a short discussion paper early in May. We fully recognise the undesirability of continuing uncertainty over the choice of frequencies for MVDS, but this is an important decision which needs to take account of the interests of all parties, including other potential users of the spectrum, from whom the Government would welcome views.

CONFIDENTIAL

cc/pt



QUEEN ANNE'S GATE LONDON SW1H 9AT

NBL

*Rec'd
24/4*

24 April 1989

Dear Secretary of State

BROADCASTING IN THE 1990s

Thank you for your letter of 17 April recording your views on schools', children's and educational broadcasting. As you say, a number of responses to the Broadcasting White Paper have commented on these aspects, and I quite understand their relevance to your own concerns.

On schools' programming we have as you recognise, proposed that the Independent Television Commission should have a duty to plan for adequate provision of such programming by the independent television sector. The White Paper also proposes that Channel 4 should be required to devote a suitable proportion of its air-time to educational programming in a broad sense. MISC 128 is to consider today the future constitution and funding of Channel 4 and will, I am sure, bear in mind that your interests lead you to prefer Option 2 in the White Paper.

An earlier meeting of MISC 128 on 20 October 1988 decided that the White Paper should not propose a separate safeguard for children's programmes on Channels 3 and 5. The Group took the view then that in an environment where channels and choice were multiplying the programming obligations on the independent terrestrial channels need not be as extensive as at present.

Among other things the Group will need to consider outstanding issues, in the light of the consultative process, on competitive tender and the quality threshold. Any requirement to provide children's programming would need to form part of the quality threshold and your proposal will thus fall naturally with that part of our discussion.

I am copying this letter to the Prime Minister, members of MISC 128, Tom King, Malcolm Rifkind and Peter Walker, and to Sir Robin Butler.

*Yours sincerely
Catherine Burrows
(Approved by the Home Secretary
and signed in his absence)*

The Rt Hon Kenneth Baker, MP
Department of Education and Science

CONFIDENTIAL

Broadcasting Policy

6444



PRIME MINISTER

FUTURE MEETINGS ON BROADCASTING

I mentioned in the briefing for today's MISC 128 meeting the outstanding proposal from the Home Secretary for a meeting with representatives of the ITV companies on the quality factor. I suggested there were doubts about the desirability of this, both on merits and timetabling. In the light of the MISC 128 discussion you will want to decide whether or not to go ahead with it.

*I don't think it is necessary at all
no*

The Home Secretary had also suggested that, for the next meeting of MISC 128 itself, George Russell might be invited to make an opening presentation on the main channel 3 issue. I gather the Home Secretary would still like to do that. The best approach might be for such a presentation at the beginning of the next scheduled meeting on 11 May, after which Russell would leave and the group could consider its conclusions.

Content:

- (i) to abandon the idea of a meeting on the quality factor? *Yes no*
- (ii) for George Russell to make an opening presentation at the next MISC 128 meeting on 11 May?

Yes no

Recd.

PAUL GRAY

24 April 1989

SL3BJD



FILE

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

24 April 1989

Dear Gareth,

MISC 128: MONITORING THE 25 PER CENT INITIATIVE

The Prime Minister was grateful for your Secretary of State's minute of 6 April. She has also seen the Home Secretary's letter of 13 April and the Chancellor's minute of 14 April.

The Prime Minister is concerned to note the difficulties in assessing the extent of the BBC's moves towards the 25 per cent figure and has noted the Corporation's unwillingness to provide detailed information voluntarily. Against that background she considers it will be necessary to add a clause to the forthcoming Broadcasting Bill which requires the BBC each year to satisfy the Office of Fair Trading that 25 per cent of programme production is coming from independent producers; this might be made a condition of the BBC licence or of the monopoly use of certain wave-lengths. The Prime Minister wishes this issue to be added to the agenda of the forthcoming series of MISC 128 meetings.

I am copying this letter to the Private Secretaries to members of MISC 128 and Sir Robin Butler.

Yours,
Paul

(PAUL GRAY)

Gareth Jones, Esq.,
Department of Trade and Industry.

PRIME MINISTER

BROADCASTING: MONITORING THE 25 PER CENT INITIATIVE

Lord Young has now come forward with proposals for monitoring the 25 per cent target for TV programmes produced by independents. His package is at Flag A. Against the background of a lack of willingness by the BBC voluntarily to provide full details, he proposes six monthly reports by the Director General of Fair Trading - which would draw on quarterly figures on hours commissioned from independent producers, supplemented by quarterly meetings with the Independent Access Steering Committee. He proposes to review in two years whether further reports are needed.

Douglas Hurd (Flag B) supports this approach.

But the Chancellor (Flag C) and Brian Griffiths (Flag D) express concern. They both strongly criticise the BBC. Brian suggests that powers should be taken in the Broadcasting Bill to compel the BBC to disclose the terms of contracts with independent producers so that they match what the ITV companies are voluntarily doing.

If you want to adopt the approach recommended by Brian, I suggest this issue needs to be added to the future business of MISC 128. Content for me to minute out in these terms on Monday morning, in advance of the afternoon meeting of MISC 128, indicating that this issue will need to be included on the agenda of a subsequent meeting?

Yes

PRC6

Paul Gray
21 April 1989

MJ2DLM

I think the answer is to include a clause which requires the B.O.C. to submit each year the OFT that 25% of production goes to independent producers as a condition of the PRC licence or the necessary use of certain wavelengths. This will need to be included in the agenda.

net

MISC 128: MONITORING THE 25% INITIATIVE

David Young has put forward proposals for monitoring the 25% target for television programmes produced by independent companies.

He proposes that the monitoring should be done by the OPT, but recognises that there is a major snag. To do this the OPT would need specific contractual details from the BBC and the ITV companies; only then could the OPT be satisfied that progress was being made to reach the 25% target and that the companies concerned were genuine "independent producers".

There has, however, been a major difference in response from the IBA and the BBC.

IBA & ITV COMPANIES

The IBA agreed with the ITV companies in 1987 that each ITV company would give details of independent commissions, including the status of the producer, and the financial relationship between the ITV company and the independent producer. The IBA has played a positive role in all of this and their statistical returns suggest the ITV companies are on target to meet the 25% target by the end of 1992.

Probably the greatest spur to the ITV companies to enter the agreement with the IBA, was their awareness of the government's intention to impose a minimum 25% target for all Channel 3 franchises in the forthcoming Broadcasting Bill.

BBC

The BBC is altogether a different story. The commitment they made in 1987 to Ministers was "to commission 12% from the independent sector in the next three years, and a further 13% in the following three year period, subject to cost and quality review". This suggests 25% by end of 1993 provided the cost and quality review proves satisfactory.

The independent producers' trade association inform me that the BBC's actual and planned programming by independents is as follows:

1987	-	100 hours
1988	-	200 hours
1989	-	300 hours
1990	-	400 hours
1991	-	500-600 hours

They also calculate that a 25% quota on the BBC would mean 2560 hours (broken down into 1500 network programming hours and 1050 regional programming hours). The BBC, however, have stated unilaterally that they will exclude news and news-related current affairs from this target. Such a definition of news-related current affairs is quite arbitrary. The independents assume that if they did this, their target for the end of 1993 would be reduced to 1500 hours.

These figures are not official BBC figures. We do not know the true figures and competition legislation does not provide the OFT with the legal powers to compel the BBC to provide government with the information.

As David Young makes clear in his note, the BBC have made it clear that they will not comply voluntarily with the request to supply such information.

Various statements made by middle to senior BBC managers at conferences suggest that many in the BBC believe that this target will not be met, and that in fact, they have no intention of moving on to the second phase, ie they will stop at 12%.

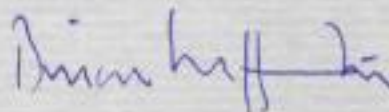
Almost certainly the 'cost and quality review' which will take place within the BBC, will show that programmes from independents are more expensive than in-house BBC productions. In cash terms this is almost certainly correct but the reason is the inadequate accounting of the BBC (which fails to treat overheads properly) rather than the true costs involved.

Conclusions

- 1 Lord Young is right to say that his proposal for monitoring the 25% target is far from adequate. The Chancellor supports this view. The problem is the BBC not the ITV companies.
- 2 The major reason for the difference in the response of the BBC and the ITV companies is that the ITV companies have known that they faced a legal requirement.

Recommendation

A clause should be added to the forthcoming Broadcasting Bill which requires the BBC to disclose the terms of individual contracts with independent producers, in exactly the same that is being done by the ITV companies.



BRIAN GRIFFITHS

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PRIME MINISTER

MEETING OF MISC 128: 24 APRIL

You talked through some of the broadcasting issues with Brian and Bernard this morning. The MISC 128 meeting itself has now been rearranged for Monday afternoon.

You have already seen all the papers. These are organised as follows:

- immediately below this note is Bernard's minute and the Cabinet Office steering brief;
- then in the three folders are the papers relating to each of the agenda items; in each case the Home Secretary's proposals together with briefs from Brian and the Cabinet Office;
- at the back of the folder is the White Paper itself.

There are three others points to note:

- you agreed when you saw the papers last weekend that there was no need to discuss the detailed issues on local services and the possibility of a Channel 6. I have ✓ minuted out to that effect. I have not bothered to include those papers in the folder (although I will have them available at the meeting in case points are raised);
- you agreed to defer a final decision on Douglas Hurd's proposal for a meeting on quality with a group of outsiders until after the MISC 128 discussion. You were I think increasingly doubtful about the idea, and you may now wish to reach a firm decision not to hold it. Apart from the arguments on merits, it would be very difficult to find diary time for this;

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- at the end of MISC 128 meeting, you will need to reach a decision on which of the other specific issues will need to be discussed at later meetings.

pcg.

(PAUL GRAY)

21 April 1989

CONFIDENTIAL



QUEEN ANNE'S GATE LONDON SW1H 9AT

20 April 1989

NBPM

RRCG

20/4

Dear David,

Thank you for your letter of 12 April about the outcome of the technical studies on the feasibility of a sixth terrestrial television channel.

I agree with your conclusion that we should not pursue further work on Channel 6 for the foreseeable future, and that the moratorium on the building of additional relay transmitters should be lifted. I am content with your proposal to announce these decisions by way of a written Parliamentary Answer to coincide with my own forthcoming announcement on local services.

I am copying this letter to the Prime Minister, MISC 128 colleagues and Sir Robin Butler.

[Handwritten signature]

The Rt Hon Lord Young of Graffham

Broadcasting Policy PV7



PRIME MINISTER

RA

MEETING OF MISC 128: 20 APRIL

MISC 128 meets after Cabinet tomorrow. I have also arranged for you to have a half hour briefing session with Brian Griffiths and Bernard Ingham at 0930.

This slot has been taken for the meeting on football.

You saw all the papers (except for a note from Bernard) over the weekend. You agreed that:

- there was no need to discuss the detailed issues on local services and the possibility of a Channel 6. I have now minuted out to that effect. I am not troubling you with those papers in the folder (although I will have them available if points are raised);
- you would defer a final decision on Douglas Hurd's proposal for a meeting on quality with a group of outsiders until after the MISC 128 discussion. Again I have minuted out to that effect. You were I think increasingly doubtful about the idea, and in the light of tomorrow's discussion may wish to reach a firm decision not to hold it. (Apart from the doubtful merits of the exercise, it is also proving very difficult to find diary time for it.)

The MISC 128 discussion can therefore focus just on the three agenda items. The papers are organised in the three folders below, and in each case comprise the Home Secretary's proposals together with briefs from the Cabinet Office and Brian Griffiths. Immediately below this note is the new note from Bernard and the Cabinet Office steering brief. As paragraph 5 of that note points out, you will need to reach a decision at the end of tomorrow's meeting about which other specific issues will need to be discussed at later meetings.

(PAUL GRAY)

19 April 1989

DALACP

CCBUP
CCBUP

PRIME MINISTER

MISC 128 - BROADCASTING

I would like to contribute two points to tomorrow's discussion:

- i) presentation
- ii) ITN

So far as presentation is concerned, I agree with Cabinet Office that it is highly desirable that the major decisions should be presented in one fell swoop. Otherwise, if they come out individually they will be separately pored over and analysed for their implications for decisions yet to come. We need a comprehensive announcement which enables the industry and public to see the policy as a whole.

I would like to approach ITN (which is not specifically on the agenda) by way of Channel 4 (which is).

All the evidence I get from commercial TV is of a preoccupation with survival - which means with profit which does not necessarily mean with quality. I do not believe you should be taken in by those who argue that competition does not necessarily mean worse television. In theory it doesn't; in practice it will be amazing if it doesn't. After all it isn't brilliant now in the circumstances of a largely protected market.

Television companies have made it clear to me that they can make a better and easier living out of much worse television. There is a distinct likelihood that LWT and Thames will do just that if they do not succeed in winning franchises by becoming satellite production companies.

Politically you are most vulnerable in the area of quality. You, of all people, must not go down in history as the person who ruined British television.

The question therefore is how do you safeguard it. The answer surely is through the IBA/ITC administering requirements and remits laid down in law.

In my view the IBA/ITC should be responsible for Channel 4 and also for ITN, as subsidiaries, within an appropriate framework which guarantees:

- quality of output and programming
- pressure for efficiency
- progressive movement towards a more independent, free standing status

My main professional concern is not with the bulk of Channel 4 and ITV output but with their news and current affairs output. There is no evidence whatsoever at present that the quality of ITN is at the forefront of the minds of the commercial companies, even though News at Ten in particular is a major money spinner.

Indeed TV South, in its response to the White Paper, has gone so far as to state:

"TVS recommends that the Government state the requirement on Channel 3 licensees for a national news service and allow the Channel 3 licensees to make such arrangements for the supply of the service as they see fit."

So much for the White Paper's concept of 'adequate competition to the BBC' to "guarantee the continued availability of a high quality news service of the kind which ITN has provided throughout the existence of the ITV system."

The White Paper said the Government intended to impose a duty on the ITC to ensure that there is at least one body effectively equipped and financed to provide news on its Channel 3 service.

If such a duty is to be imposed upon the ITC it would be better that the ITC were in a position to deliver or by having ITN under its wing as a subsidiary.

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Without this, the response of the ITV companies to the White Paper at least provides grounds for fearing that ITN would:

- be kept on as short rations as possible
- have difficulty in developing its service and in competing with an entrenched and powerful BBC
- spend a lot of time fighting for news exposure at peak viewing times
- have little prospect of achieving a position where a majority of shares were held by non-licensees
- consequently, have little prospect of achieving a self-standing profit making position as a news organisation,

The position of ITN also bears upon the future quality of Channel 4 News which ITN now provides with distinction.

You must be careful in taking final decisions lest you effectively weaken the quality competition confronting BBC on Channel 4 and ITN. If competition is important - and it is - it is no less important in ensuring that competition for the provision of higher quality programmes is maintained. My concern is how best to secure that competition.

I believe that your personal position will be strengthened if you provide some assurance of this over the transitional period without prejudice to - indeed with the prospect of - a more free standing, longer term future for both Channel 4 and ITN.



BERNARD INGHAM
April 19, 1989

CONFIDENTIAL

cel



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From The Secretary of State for Wales

CONFIDENTIAL

The Rt Hon Peter Walker MBE MP

CT/3235/89

19 April 1989

D. Douglas

MBM
Rec
19/4

LOCAL SERVICES

at Kap.

Thank you for copying to me your letter of 10 April to David Young in which you set out your revised proposals for legislation on local services.

I am content with the changes you propose to our original proposals and with the terms of your draft announcement.

I am copying this to the Prime Minister, John Wakeham, other members of MISC 128 and to Sir Robin Butler.

[Handwritten signature]

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

CONFIDENTIAL

Broadcasting Broadcasting Policy
Part 2



dti

the department for Enterprise

CPA

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

The Rt Hon Douglas Hurd CBE MP
Secretary of State for Home Department
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Direct line 215 5422
Our ref PS5CHB
Your ref
Date 18 April 1989

John Douglas

at flap

Thank you for your letter of 10 April about the proposals for local services which you plan to announce at the end of the month.

As you mention, our officials have done a great deal of work on this, and subject to my detailed comments below, I am happy for you to make the announcement on the lines you suggest.

On SMATV, your letter looked forward to a modified regime from the Cable Authority which, I understand, now looks as though it will be less liberal than originally suggested. Whilst this will help highlight the extent of liberalisation in our proposals, it does warn us of the balance that must be struck between SMATV liberalisation and the need to make LDOs attractive enough to encourage investment. Our other new proposals (in relation to retail/delivery separation, levy and second franchising) have, however, all been amended in a way that should encourage LDOs and I am content that in the round ours is a balanced package.

I understand your wish to announce our policy on all aspects of ownership together. May I suggest, therefore, that you omit totally paragraph 6 of the note for the libraries of the Houses, and replace it with a sentence on the following lines:



dti

the department for Enterprise

"Details of the ownership rules for LDOs will be contained in a forthcoming announcement of the Government's overall policy towards ownership rules under the new broadcasting regime."

I do not think we can issue the paragraph as it stands before we have reached final decisions on ownership.

... I attach as an annex some detailed drafting suggestions on the statement with which I am essentially content.

I shall be writing separately to colleagues about MVDS frequencies very shortly.

I am copying this letter to recipients of yours.

J. L. Ward

the
Enterprise
Initiative

SUGGESTED AMENDMENTS TO DRAFT ARRANGED PQ ON LOCAL SERVICES

- 1 Page 2 Line 4 insert "in the area concerned" after "demand".
- 2 Page 2 Line 5 insert "nature and" after "choose the".
- 3 Page 2 Line 8 might read "... safety and interference, but also, for example, to compatibility. The Government, after consulting all interested parties, will decide how this is to be achieved."
- 4 Page 2 first complete paragraph penultimate line "... tender mechanism, taking due account of the arrangements decided upon for the allocation of licences for Channels 3 and 5."
- 5 Page 3 Line 10 insert "some" after "injecting".
- 6 Page 3 Line 12 delete "considerably".
- 7 Page 3 Line 13 delete both phrases in square brackets.
- 8 Page 3 Line 22 insert "significant" for "substantial".
- 9 Page 3 Line 26 "systems larger than this and covering not more than 1,000 homes would be individually licensed under that Act...".
- 10 Page 3 Line 31 insert "Unlike local delivery operators," before "SMATV operators".
- 11 Page 4 Line 3 delete "the modified policy which the Cable Authority has recently announced".
- 12 Page 4 Line 4 retain passage in square brackets beginning "licensed" but amended to read "licensed SMATV operators would only be able to carry Channels licensed by the ITC....".

Amendment to Note entitled "Government proposal on local services".

Paragraph 11 Line 9 for "could" insert "would".

BROADCASTING: Kansas
147

18. W.



cc/B
cc/B/af.

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Department
50 Queen Anne's Gate
London SW1H 9AT

117 APR 1989

BROADCASTING IN THE '90s'

Since the publication of the White Paper on broadcasting there has been a good deal of public discussion, not least on the future for educational broadcasting. I thought that it would be helpful if I let you have my views. It is useful to distinguish between schools programmes, children's programmes and those of a broader educational nature.

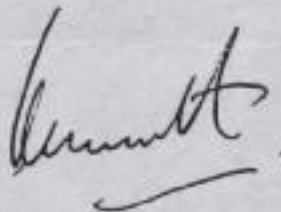
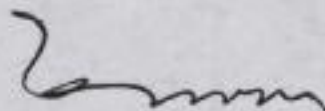
We know from inspections carried out by Her Majesty's Inspectorate, and from the Surveys of Listening and Viewing, that both on BBC and independent television schools broadcasting is widely used and widely appreciated. A rich variety of programmes serves to enhance the work of the less able teacher, to explain difficult concepts or illustrate experiments, or to stimulate children's work through drawing the wider world into the classroom. Whilst there is something of a balance in favour of the BBC, a substantial majority of all schools, primary and secondary, make considerable use of independent TV schools broadcasting. I attach great importance to maintaining and even enhancing this level of provision. It is particularly important in the context of the new National Curriculum which we are to start introducing this Autumn, more particularly because of the shortage of teachers in Maths, Science and Design and Technology. It is right therefore that the ITC should have a duty to plan for adequate provision of such programmes by the independent television sector by requiring them to produce an adequate range of good quality programmes.

I also attach great importance to children's TV. This is transmitted in the morning and afternoon in time slots which are agreed and protected by tradition. The ITV companies and the BBC spend considerable resources on these programmes and the revenue does not cover the cost. Since deregulation, American TV companies have initially stopped showing children's TV and replaced them with a diet of rather poor cartoons and light entertainment for adults. Do we really want our children at 4pm watching quiz shows and soap operas?

In this country, children's TV whilst not specifically educational, does provide a firm foundation for schooling. They stimulate children and encourage them to do constructive things. They introduce them to drama and music. And they stimulate the child's imagination and sense of adventure. The programmes are viewed extensively by children and we should try to ensure that both the quality and quantity are fully maintained. If this is to be achieved we shall, I believe, need to provide mechanisms similar to those for schools broadcasting.

Quite apart from schools and children's television, we should I think do whatever we can to maintain broader educational programming on Independent Television. I have in mind programmes which discuss such issues as health or the environment, or which generally seek to broaden people's horizons. The requirement on Channel 4 to devote a suitable proportion of its air time to educational broadcasting will go some of the way to achieving this. But again these sorts of programmes will attract little advertising so that raises the question of funding. Funding options 1 and 3 do not provide for this and I hope therefore that we shall opt for the second of the funding options for this Channel.

I am sending copies of this letter to the Prime Minister, members of MISC 128, Tom King, Malcolm Rifkind and Peter Walker, and to Sir Robin Butler.





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 April, 1989.

BROADCASTING: NO.10 MEETING ON THE QUALITY FACTOR

Thank you for your letter of 14 April to Andrew Turnbull enclosing a list of possible names of those who might attend an informal meeting at No.10 on quality in broadcasting.

The Prime Minister was grateful for this. Before going ahead with such a meeting, the Prime Minister will want to be sure it would be of value to the discussions rather than provide a focus for lobbying. She wishes to defer a final decision on whether such a meeting should take place until after the discussion at Misc 128 this coming Thursday, 20 April.

Paul Gray

Miss Catherine Bannister,
Home Office.

L/14 JD 59

le BG

SA



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

17 April 1989

Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9BW

N/S

Recd

n/c

Dear Home Secretary,

LOCAL SERVICES

Thank you for sending me a copy of your letter of ~~10~~ ¹⁷ April to David Young on local services.

I agree that, while it is right to maintain the central features of our White Paper proposals - technology-neutral local franchises allocated by competitive tender - it is also appropriate to make some modifications to the earlier proposals in the light of the comment you have received in the interest of enabling local services to grow as a genuinely competitive player in the new broadcasting market.

I am therefore content with the modified scheme drawn up by officials which you propose to announce, including the decision not to introduce a new levy on local services. We need to be careful when announcing this later this month not to limit our room for manoeuvre in relation to the bigger decisions we still have to take on auctions and levy for the other satellite and terrestrial services. The presentation in your draft announcement is helpful in this respect.

I also support the liberalisation you propose for SMATV systems.

I am copying this letter to the Prime Minister, the Lord President, other members of MISC 128 and to Sir Robin Butler.

Yours sincerely,

Duncan Sparkes

p.p. NIGEL LAWSON

*[Approved by the Chancellor
and signed in his absence]*

BROADCASTING: BBC Finance P17.





10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 April, 1989.

Dear Catherine,

LOCAL SERVICES AND CHANNEL 6

The Prime Minister has seen the Home Secretary's letter of 10 April to the Secretary of State for Trade and Industry concerning Local Services, together with Lord Young's letter of 12 April about Channel 6.

The Prime Minister is content with the terms of the proposed announcements on both these issues. Unless other colleagues have substantial comments, she does not therefore see any need for the issues to be discussed at the forthcoming meeting of Misc 128 on 20 April.

I am sending copies of this letter to the Private Secretaries to the Lord President, other members of Misc 128, and to Trevor Woolley (Cabinet Office).

Yours,
Paul
Paul Gray

Miss Catherine Bannister,
Home Office.

cc BHP
✓

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K02162

PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING SERVICES (MISC 128)

The attached briefs for the meeting on 20 April are based on the assumption that the Home Secretary's proposals for an early statement on local services, set out in his minute to the Trade and Industry Secretary of 10 April, will be cleared in correspondence before the meeting. These proposals (including allowing local operators to retail programmes as well as deliver them; dropping the idea of a levy on local services; and a substantial liberalisation of SMATV systems) have been agreed between departments at official level, and on present advice we do not foresee difficulties being raised by other Ministers. If there should be any problems on local services, however, they will have to be discussed at the meeting on 20 April, since the Government is committed to make a further statement on local services before the end of the month.

2. Item 1 is simply an opportunity for taking stock and establishing the ground-rules for the Group's remaining work, and it does not call for any substantive decisions. You may particularly wish to use it, however, in order to establish with the Home Secretary how the presentation of these second-stage decisions should be handled. Unless there are very strong operational reasons for earlier announcements on individual topics - and we are not aware of any - there seems everything to be said for making a single comprehensive announcement of all the Government's second thoughts on the White Paper in, say, mid-June.

3. Item 2, on ownership requirements, is reasonably freestanding, and you may be content for the Group to take a

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provisional decision on it. But all the outstanding points inter-react with each other, and you will probably wish to withhold final agreement until you can see the total shape of the package that is emerging.

4. Item 3, on the financial arrangements for Channel 4, is much more difficult, since the Home Secretary is seeking MISC 128's agreement for the least competitive of the options canvassed in the White Paper. You may wish to ask the Home Secretary to work up some further possibilities for putting efficiency pressure on Channel 4, for consideration at the next meeting. In any event, final decisions could not possibly be taken on Channel 4 until the shape of Channel 3 is clearer, and that will depend on the Group's later consideration of the competitive tendering machinery for franchises, on which the Home Secretary will be bringing Mr George Russell to make a presentation.

5. Following the 20 April meeting you will probably need at least two further meetings of the Group to agree a total package, but you will be able to form a better idea of that in the light of this first meeting. Apart from competitive tendering and Channel 4, the most difficult remaining subject is probably transmission.

A.J.L.

A J LANGDON

14 April 1989

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CGBUP

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PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING SERVICES (MISC 128)
CHANNEL 4: MISC 128(89)3

OBJECTIVES AND DECISIONS

1. The basic question posed by the White Paper was how Channel 4's remit could be best maintained and the Channel sell its own advertising during a period when there would be greatly increased competition and Channel 4's close supportive links with ITV would almost certainly be eroded. The Home Secretary argues that developments on the ground since MISC 128 last considered this topic, and the overwhelming response to the White Paper, support his preferred White Paper option, as against full privatisation which has hitherto been favoured by the Chancellor of the Exchequer.

No

2. The main decision that the Home Secretary seeks is that Channel 4 should be established as a non-profit-making subsidiary of the ITC with a ^{Mo} guaranteed minimum income of 14% of the previous year's total Net Advertising Revenue (NAR). You may wish to ask the Home Secretary to consider, in consultation with the Chancellor of the Exchequer, whether it is possible to devise a modification that will provide more incentive to efficiency, and less of a cushion against inefficiency.

3. On ways in which the other channels might support Channel 4, the Home Secretary is also proposing that there should be no obstacle to Channel 4's regional advertising (though not its national advertising) being sold by Channel 3, and that there should be a requirement on Channels 3 and 5 to undertake the promotion of Channel 4, although they will not derive any direct profit from it.

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4. You will also wish to obtain the Group's preliminary view on the proposal that the Welsh fourth channel should be funded by the ITC out of the money raised by competitive tender, and not by way of a direct subscription by the other independent companies.

5. On the handling of announcements the Home Secretary proposes that the Group's eventual decisions will need to be announced by way of reply to the Home Affairs Committee. In accordance with the line recommended under Item 1, you may wish to say that even if protocol requires a reply to the Home Affairs Committee, this should be managed as part of a simultaneous announcement of decisions on all the outstanding issues, for which the target date might be around mid-June.

BACKGROUND

6. Channel 4, with its special remit to cater for interests that would not otherwise be met, is presently a wholly-owned subsidiary of the IBA, financed by a subscription levied on the independent TV companies, who sell the advertising on Channel 4 and retain the revenue that it raises. One of the central themes throughout MISC 128's earlier round of discussion was the high cost of television advertising, and one of the Group's basic tenets was that Channel 4 should sell its own advertising in order to introduce more competition. On the other hand, the Group fully accepted that maintaining the Channel 4 remit would be a very important part of the guarantees of quality that needed to be built into the White Paper prospectus, to balance the extensive deregulation that was envisaged elsewhere in the system. On one side of the argument, the Chancellor of the Exchequer felt that full privatisation was the only means of exposing Channel 4 to the drive for efficiency that underlay the whole of this policy review, and that the maintenance of the Channel's distinctive remit could be achieved through policing by the ITC. On the other side of the argument, the Home Secretary and the Trade and Industry Secretary felt that profit-seeking under a full privatisation model would inevitably drive the

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channel down-market in pursuit of a mass audience, and that the achievement of Channel 4's admittedly nebulous programming requirement could not be imposed by a regulatory body that was designed to operate with a light touch. The Home Secretary put forward various new models for a non-profit-seeking Channel 4, and he ultimately settled on the proposal that it should be a wholly-owned subsidiary of the ITC, with some form of guaranteed minimum income.

7. Although you were uneasy at the Home Secretary's proposals, which you thought might encourage Channel 4 to indulge in extravagance at other people's expense, it was not possible to resolve the evenly balanced views in the Group on this issue. Accordingly, the White Paper committed the Government to maintaining the Channel 4 remit and to the Channel's sale of its own advertising but canvassed both possible options for the Channel's new financial structure. In addition, the White Paper floated the possibility of constructing some form of link between Channel 4 and Channel 5, which was an idea that had first been floated by Mr Michael Grade and which had found some favour on the ground that it would help to establish a "third force" standing against both the BBC and Channel 3.

MAIN ISSUES

a. A link with Channel 5

8. You may be prepared to agree at the outset that the third White Paper option, of a link with Channel 5, may be discarded with no further discussion. This option seems to have had absolutely no friends among those who responded to the White Paper and, whatever Mr Grade might have thought of the idea at one time, he vigorously repudiates it now. The basic objection to the idea is that Channel 5 is a totally unknown quantity and, in the short and medium term, a close relationship with it would be likely to be a liability on Channel 4 rather than a help.

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b. Privatisation or non-profit-making status with a guarantee?
9. If the idea of a link with the fifth channel is discarded, the argument is back where it was before the White Paper, with a choice between privatisation and some form of guaranteed non-profit-making status.

10. On the one hand, Mr Hurd can point to developments in the last year that do weaken the case for privatising Channel 4. The whole television industry now seems leaner and more efficient than it was when MISC 128 first addressed these questions, and the increased competition now predicted from a fifth channel and satellite services means that less of the weight of introducing competition now needs to be placed on Channel 4. The responses to the White Paper were certainly weighted heavily against privatising Channel 4, and this itself might make it politically difficult to pursue that option when, as Mr Hurd would say, Channel 4 is assuming even greater importance as a quality guarantee in the context of the very widespread competition that is now foreseen. Finally, it should be borne in mind that Channel 4 operates by commissioning programmes rather than by making them itself, and that it has never been vulnerable to extravagance and inefficiency on the scale that has affected the BBC and ITV systems.

11. On the other hand, the Incorporated Society of British Advertisers believe that full privatisation would be viable and that non-profit-making status under the ITC would be too similar to the present arrangements, and you may wish to probe this with the Trade and Industry Secretary in particular. The Home Secretary's paper quotes the IBA and National Economic Research Associates as predicting that Channel 4's audience share will drop from the present 9% to as low as 6%. But audience share is not a complete guide to profitability, especially when the audiences in question tend to be highly specialised ones in the upper socio-economic groups. You may wish to confirm that the

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Trade and Industry Secretary agrees with the Home Secretary that these "niche audiences" could not support a privatised service without damaging the remit.

12. Turning to the Home Secretary's proposals - which are supported by Channel 4 itself, the IBA and the Home Affairs Committee - your basic concern will still be that they give Channel 4 very little incentive to efficiency. Mr Hurd suggests that the Government should now commit itself to a guarantee to Channel 4 of 14% of the total Net Advertising Revenue (NAR) of the independent terrestrial services, which compares with the Channel's present proportion of about 14.9% when various facilities currently provided free are taken into account. This would represent a squeeze on Channel 4 of about 7%, but it is the only spur to efficiency in Mr Hurd's proposals. Under his scheme, Channel 4 would not have the incentive of being allowed to keep any of its advertising revenue above the target figure, and it would be fully reimbursed for the whole of any shortfall. Furthermore, any such reimbursement would be provided by the ITC out of the proceeds of competitive tendering, and hence at the taxpayer's expense.

13. If the Group is minded to move in the direction of Mr Hurd's proposal there are two basic points that need further examination.

(i) Given the likely volatility of the television scene in the 1990's, and the difficulty of predicting Channel 4's performance in such an uncertain context, is it realistic to pin the Government to a specific 14% guarantee at this stage?

(ii) Is it possible to devise modified proposals that would inject more incentives to efficiency. One possible approach might be to introduce a proportional element at each end of the scale so that Channel 4 would be allowed to keep part of

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any surplus that it made and would itself have to meet the first part of any shortfall of its revenue against a target figure.

You may wish to ask the Home Secretary to consider both these points in consultation with the Chancellor.

c. How far should Channel 3 continue to support Channel 4?

14. Nobody is questioning that Channel 4 should itself sell its own national advertising under the new dispensation. But Channel 4, the IBA and the Home Affairs Committee all argue that it would be impracticable for Channel 4 to set up its own rival selling organisation for regional advertising. The Home Secretary comes down in favour of the compromise that Channel 4 should be allowed to sell its regional advertising through Channel 3 if it wishes to make such an arrangement on a commercial basis, and this proposal does not greatly damage the Government's basic insistence on separate sale of advertising.

15. There is a much more fundamental problem on the extent to which the other independent terrestrial channels should support Channel 4 by way of cross-promotion. At present the independent TV companies have considerable incentive to co-operate with Channel 4 on scheduling and cross-promotion, since they keep the advertising revenue that Channel 4 generates. In effect, Channel 4 rides on the back of a mass audience channel. Under the new regime, however, the other independent companies will be fierce competitors with Channel 4, rather than partners, and the fear is that a specialist interest channel could not survive in that climate without damage to the remit. The Home Affairs Committee concluded that the prospects for Channel 4 would only be good if a measure of co-operation between Channel 4 and Channel 3 could be achieved, and they recommended that the legislation should in some way require such co-operation. The Home Secretary now develops this idea so as to place an obligation on both Channel 3 and Channel 5 franchisees to promote Channel 4, but he explicitly

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recommends against Channel 4 being placed under any reciprocal duty.

16. The idea of such heavy co-operation between commercial rivals was not, however, received with equanimity by the ITV Association, representing the ITV companies. In evidence to the Home Affairs Committee Mr Richard Dunn (Chairman of the Association) said that the Association was profoundly doubtful about Channel 4's proposals for co-operation and that, in his view, any attempt to impose such a duty of co-operation in the new legislation would "fall apart under pressure, and we know there is going to be pressure".

17. There may well be an element of exaggeration in the ITV Association's evidence to the Home Affairs Committee on this point, since their main object was to argue in favour of the status quo. Nevertheless, it might be somewhat uneasy to include provisions for such duties in a Bill that is dedicated to encouraging competition in a deregulated environment. On the other hand, the promotion of Channel 4 on ITV is a key feature of their operations, worth about £20 million a year, and Mr Hurd will argue that if it were to disappear under the new regime it would need to be replaced at Exchequer expense.

d. The Welsh Fourth Channel

18. At present the Welsh fourth channel is financed by a direct subscription from the other commercial television operators, and the White Paper proposed that this arrangement should continue unchanged. The IBA has now argued that such arrangements would be anomalous under a competitive system, and that it would be cleaner and healthier for the ITC to finance the Welsh fourth channel directly from the money received from the competition for franchises.

19. We understand that neither the Chancellor of the Exchequer nor the Welsh Secretary were consulted much in advance on this

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proposal, and we do not know their views. At first sight the proposal looks attractive, and it might certainly be the best way of lessening the aggravation felt in Scotland by the overt subscriptions that their regional services have to make to the Welsh fourth channel. But the essential point is whether the Chancellor of the Exchequer accepts the Home Secretary's argument that the proposed arrangements would not markedly affect the return to the exchequer and that is the point on which you may wish to concentrate.

c. Handling of announcements

20. The Home Secretary makes numerous references in his paper to the report by the Home Affairs Committee, and he proposes that the Group's conclusions on Channel 4 will need to be announced by way of a formal reply to the Committee. For the reasons set out in the brief on Item 1, however, you may be reluctant for the Group's remaining decisions to be announced piecemeal. Even if it is necessary, as a matter of courtesy, to announce the conclusions on Channel 4 in the form of a formal response to the Committee, this should probably be done at the same time as the other announcements, and with some sort of cross-reference between the two.

HANDLING

21. You may wish to invite the HOME SECRETARY to introduce his paper, and then ask the CHANCELLOR OF THE EXCHEQUER to make the first comment on it. The TRADE AND INDUSTRY SECRETARY might then be invited to make any general comments, and you might then take the meeting through the main issues set out above.

22. The WELSH SECRETARY (and also the SCOTTISH SECRETARY) will have particular comments on the Welsh fourth channel.

A. J. L.

A J LANGDON

14 April 1989

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PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING SERVICES

OWNERSHIP (MISC 128(89) 2)

DECISIONS

1. You will wish the Group to reach a clear view on:
 - i. the proposed rules on ownership set out at Annex A to the Home Secretary's Memorandum; and
 - ii. whether the Home Secretary should make an announcement about the new rules on ownership at the end of April or whether this should be deferred until the Group has taken decisions on all outstanding issues relating to independent television.

BACKGROUND AND MAIN ISSUES

2. Most of those who commented on the White Paper proposals on ownership (paragraphs 6.48-6.53) welcomed the commitment to impose limits on the concentration of ownership and on excessive cross media ownership. However, there has been a good deal of comment about the undesirability of media barons, such as Mr Maxwell or Mr Murdoch, being able to acquire control over an excessive number of broadcasting outlets; and a large number of respondents and of those who spoke in the Commons and Lords debates have called for some further tightening up of the controls proposed in the White Paper. The Home Secretary

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believes it important for the Government to be seen to respond to these concerns.

Proposed Rules on Ownership

3. The rules on ownership which the Home Secretary now proposes are set out at Annex A to his Memorandum. The main proposals are as follows.

(i) Rules 13 and 13(a) provide that no newspaper should have a holding of more than 10% in a broadcasting licensee (or vice versa) where the Independent Television Commission (ITC)/Radio Authority (RA) considers this would be against the public interest; and provide an absolute bar on any national newspaper having a holding of more than 25% in a Channel 3, Channel 5 or national radio licensee (or vice versa). This differs from the White Paper which suggested a bar on holdings above 20% (a proposal which has been endorsed by the IBA). I understand that the proposed limit was increased to 25% at the suggestion of DTI officials in order to bring it into line with the trigger point in mergers legislation. However, you may feel that it would be politically unwise for the Government to propose a less restrictive control in this sensitive area than that canvassed in the White Paper.

We understand that the Treasury are briefing the Chancellor to argue that the 25% rule should not apply to a proprietor who owns only one national newspaper. However, such a newspaper (which might conceivably, in future, come out on all seven days of the week) could exercise a powerful influence on public opinion and you may feel that it would

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not be acceptable to relax the White Paper proposals by exempting such a proprietor from the cross ownership rules.

(ii) The White Paper proposal that the same group could hold two (but not more than two) Channel 3 licences has attracted a good deal of criticism from those who maintain that it would be wrong for a single interest to control either two contiguous regions (which might, for example, amount to the whole of Scotland) or two large regions. Rule 7 accordingly provides that no group may hold more than one licence except where the ITC considers this would not be against the public interest. It is envisaged that the ITC might allow this where, say, the only group interested in one of the less attractive franchise regions was the franchise holder for a neighbouring region. You may feel that there would be advantage in tightening up the reference to "not against the public interest" to specify the restricted circumstances in which the ITC might exercise their discretion. It might also be prudent for the rules to set an absolute limit, probably of two, on the number of licences which any one group could hold.

(iii) Rule 8 empowers the Secretary of State to establish limits on the ownership of satellite channels uplinked from the United Kingdom. This is designed as a safety net against the possibility that a single entrepreneur might acquire a large number of channels, eg on ASTRA, which together accounted for a large share of the United Kingdom's television audience. It seems doubtful whether the proposed controls would do much to redress such a situation since the entrepreneur in question would be free to uplink his channels from other European countries. Such a power

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might have presentational attractions, however, though you may feel that the Government ought to give some broad indication of the circumstances in which it would be exercised so that satellite channel owners could plan accordingly.

(iv) Rules 1 and 2 prevent non-EC control of ITC/RA licenses except that, as agreed between the Home Secretary and Lord Young in correspondence (the Home Secretary's letter of 14 March and Lord Young's reply of 28 March), the present prohibition on non-EC control of cable, in which various American interests are keen to invest, should be lifted. You may wish to check that other members of the Group are content with these proposals.

(v) Rule 15 provides a three year moratorium on hostile takeovers from the time when the licence is awarded. This picks up a proposal by Mr Russell, chairman of the IBA and chairman-designate of the ITC, which was endorsed in many of the responses to the White Paper. The arguments for a moratorium are that new licence holders will need an initial period of stability in which to find their feet and that, without a moratorium, some of those interested in acquiring franchises might hold back from the tendering process with the aim of taking over one of the successful bidders. Lord Young, however, may argue that it would be wrong to protect licence holders from the disciplines of the market even during the initial period.

There is clearly a risk that, under the sort of moratorium proposed by the Home Secretary, some franchise holders might limp along for the initial period without any real prospect

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of ever performing successfully. On the other hand, if some of those interested in acquiring a franchise were to stand back from the tendering process in the way which the Home Secretary foreshadows, this might reduce the size of the eventually successful tenders; and if there were a spate of takeovers shortly after the licences were awarded, the whole procedure might be brought into disrepute. You may wish to seek the Group's views on the balance of these arguments.

Judicial Review

4. A number of the proposed rules require the ITC/RA to take a view of the public interest. While this requirement is well precedented, being based on provisions in the Cable and Broadcasting Act 1984 which govern the conduct of the Cable Authority, the concept of "public interest" is pretty nebulous and there must be a risk of unsuccessful applicants challenging decisions of the ITC/RA by way of judicial review. Moreover, of course, there can be no guarantee that the ITC/RA will interpret "the public interest" in the way envisaged by the Government. You may accordingly wish the Home Secretary to consider whether the rules can set out rather more precisely the considerations which the ITC/RA should apply. You may also wish to ask him to consult the Attorney General about the scope for reducing the risks of judicial review.

Timing of an Announcement

5. The Home Secretary would prefer to announce the Government's conclusions on ownership at the end of April together with the announcement on local services which the Government has undertaken to make at that time. However, any such announcement is bound to provoke questions about related matters which the

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Group have not yet considered, for example whether Channel 3 licences will be of fixed or indefinite length. For the reasons given in the brief on the previous item, you may feel that it would be prudent to delay an announcement on ownership until the Group has taken decisions on other aspects of the independent television regime.

HANDLING

6. You will wish to invite the HOME SECRETARY to introduce his Memorandum.

7. You may then wish to go through the various points in the order set out in this brief (which broadly follows the order of the Memorandum). The TRADE AND INDUSTRY SECRETARY and the CHANCELLOR OF THE EXCHEQUER, in particular, will have comments.

A. J. C.

A J LANGDON

14 April 1989

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PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING SERVICES (MISC 128)
IMPLEMENTING THE BROADCASTING WHITE PAPER
HOME SECRETARY'S MINUTE OF 28 MARCH

OBJECTIVES AND DECISIONS

This overview paper by the Home Secretary is on the agenda simply to enable the Home Secretary to bring the Group up to date and set the scene for the final round of decision-making on broadcasting policy. No substantive decisions are required. You may, however, wish to use this item to establish that the Group's target should be a comprehensive announcement of the Government's decisions on all outstanding points in, say, mid-June. That would keep the initiative firmly in the hands of the Government and it would enable you and the Group to review the balance of the package as a whole before you become finally committed to particular components of it.

BACKGROUND

maintainance?
2. Stripped to its essentials, MISC 128's main preoccupation has been to encourage the greatest consumer choice, competition and efficiency in British broadcasting that is compatible with adequate guarantees for the maintenance of quality. On the one hand, the BBC will continue to provide the cornerstone of public service broadcasting (though it will be brought under increasing pressure to finance itself through subscription from 1991) and the Channel 4 remit will be preserved (though a new financial structure for Channel 4 remains to be settled). On the other hand, Channel 3; the new fifth channel; services on Direct Broadcasting by Satellite (DBS); and local services provided by Cable and/or MVDS will all be operated under a much lighter touch than that of the IBA's current regime. In addition, satellite services, such as Sky - which are up-linked from the UK but not broadcast on UK frequencies - will simply be subject to basic consumer protection requirements of taste and decency.

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The summary of the White Paper's proposals is attached, for convenience, as an Annex to this brief.

3. Among the Home Secretary's list of issues which now need to be reconsidered by MISC 128 there are three that go to the heart of the argument about quality. They are

- i. the quality threshold, competitive tender and the levy (primarily affecting Channel 3 and the fifth channel but also relevant to local services);
- ii. the funding and structure of Channel 4;
- iii. ownership.

The fourth issue - use of night hours - does not stir up the quality debate as directly as do the previous three issues, but it brings into question both the competitive position of the BBC under the new regime and also the rate at which the BBC can reasonably be expected to move to subscription financing. The issue has the potential, therefore, of being quite sensitive.

Finally, there is the separate issue of transmission, which is a highly complicated field in its own right. The Group will need to review in more depth the full implications of regionalising the present national transmission systems.

MAIN ISSUES

4. The general line of the Home Secretary's minute is to argue that even in the few months since the White Paper was prepared it has become apparent that the forthcoming competition in television services will be more determined in character, and on a wider scale, than had previously been envisaged. There will therefore be relentless pressure for revenue, and quality requirements will come under heavy pressure. The Home Secretary

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argues that the lesson of all this is to review the adequacy of the White Paper safeguards for quality programming on Channel 3 and Channel 5, and the best way of safeguarding the Channel 4 remit, and he reminds you of his view that the Broadcasting Bill should be seen as a centrepiece of a legislative programme in which the main theme will be the quality of life and service to the public.

*ie. BBC & Channel 3 & 4 should be
much better than now.*

No 5. You may wish to indicate whether you accept the Home Secretary's broad overview of the situation, with its implication that the quality-related issues are the points on which the Group will need to focus. You may also wish to confirm that the other members of the Group accept the Home Secretary's minute as a full list of the main points that now need to be reviewed. You may also wish to make some comments on the following specific points.

a. The scale of increased competition

6. As the Group recommences work, you may wish to bring yourself up to date on developments since last autumn. The very high numbers of new channels quoted in paragraph 4 of the Home Secretary's minute are on the assumption that there will be a second Astra satellite next year and that the second Eutelsat satellite will be launched this year. These eventualities seem perfectly likely, so far as we can judge, and they certainly support Mr Hurd's general arguments about increasing competition. No other player seems to be entering the satellite scene on the scale of Mr Rupert Murdoch's Sky channel, however, and the main point of current interest is the degree of success that Sky is achieving, and the prospects of BSB, which is currently gearing itself up to launch services on its three DBS channels in September. You may wish to ask the Home Secretary and the Trade and Industry Secretary to bring the meeting up to date on this.

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7. You will also wish to note that the Trade and Industry Secretary has recently written to report that the technical studies on a possible sixth channel have shown that this would not be a practicable option. This conclusion, which can be announced this month along with the decisions on local services, is not unexpected, and it does not greatly affect the picture of increased competition on which the White Paper was based.

b. The Home Affairs Committee

8. You may want to make some comment on the Home Secretary's suggestion that particular importance should now be attached to the views of the Home Affairs Committee, which has been broadly supportive of the White Paper policy, but has taken a line of its own on one or two topics. In particular, the Committee has recently produced a report on the financing of Channel 4 in which it unreservedly supports the option for which the Home Secretary is seeking MISC 128's agreement. If you accepted under this item that the Home Affairs Committee was an especially important commentator, then that might limit the discussion of the option for Channel 4 later in the meeting. You may therefore wish to comment that, while the Home Affairs Committee's general support is very welcome, the Committee is not necessarily right in every particular.

c. Presentation of any changes to White Paper policy

9. The Home Secretary's other two papers seem to contemplate a piecemeal series of announcements as the Group take decisions. Apart from the question of local services, which is being dealt with separately, there is, however, no compelling operational requirement for early announcements. (The Home Secretary argues in the paper on ownership that the announcement of the decisions on ownership of local services will have to be held over until a more general announcement can be made on ownership questions, and that the separate announcement on other aspects of local services will generate some expectation on that score. But those with a particular interest in the ownership of local services are not an

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especially significant part of the scene, and there seems no reason why they should not wait until a more general announcement.)

10. We have had an initial word about this with Mr Ingham and, subject to any more detailed advice that he may wish to put to you, we would recommend that it would be far better to hold over any further announcements until the whole package can be seen in the round, which would probably mean a comprehensive announcement in about mid-June. You may wish to remind the Group that in their previous round of discussions they found that all the main issues inter-reacted on each other, and that it was not possible to take final decisions until the whole of a draft White Paper was before them. The Group will probably have the same experience on the second stage decisions that now need to be taken.

HANDLING

11. You may wish to ask the HOME SECRETARY to introduce his minute, as a general introduction to the Group's new phase of work for which they are being joined by the Scottish Secretary. You may then wish to ask the TRADE AND INDUSTRY SECRETARY and the CHANCELLOR OF THE EXCHEQUER if they have any general points, and you may particularly wish to register your views on managing the announcement of the Group's decisions, as in the previous paragraph of this brief.

A.J.L.

A J LANGDON

14 April 1989

I Summary

1.1 This White Paper sets out the Government's proposals for broadcasting in the UK in the 1990s.

1.2 The Government places the viewer and listener at the centre of broadcasting policy. Because of technological, international and other developments, change is inevitable. It is also desirable: only through change will the individual be able to exercise the much wider choice which will soon become possible. The Government's aim is to open the doors so that individuals can choose for themselves from a much wider range of programmes and types of broadcasting. In this as in other fields consumers will rightly insist on safeguards which will protect them and their families from shoddy wares and from exploitation. But the Government believes that, with the right enabling framework, a more open and competitive broadcasting market can be attained without detriment to programme standards and quality. Its single biggest advantage will be to give the viewer and listener a greater choice and a greater say. The Government is also clear that there need be no contradiction between the desire to increase competition and widen choice and concern that programme standards on good taste and decency should be maintained. Both are essential if the quality of British broadcasting is to be safeguarded and enhanced into the next century.

1.3 Chapter II sets out the Government's general approach. It explains more fully why radical reform of the framework for broadcasting in the UK is both necessary and desirable. Chapters III to XI contain the Government's specific proposals. The main ones are these:

- Most viewers will have a major increase in choice with the authorisation of a new *fifth channel*, to be operated as a national channel, with different companies providing the services at different times of the day. A *sixth channel* will also be authorised should technical studies show this to be feasible.
- The present ITV system will be replaced by a regionally based *Channel 3* with positive programming obligations but also greater freedom to match its programming to market conditions.
- Provision will be made for at least one body which is effectively equipped to provide high quality *news* programmes on Channel 3.
- Options are canvassed for the future constitution of *Channel 4* on the basis that its distinctive remit is preserved and its advertising is sold separately from that on Channel 3. The *Welsh Fourth Channel Authority* will continue to provide the Fourth Channel in Wales.
- There will be a new flexible regime for the development of multi-channel *local services* through both *cable* and *microwave transmission (MVDS)*. This will provide a further major extension of viewer choice.
- The UK's two remaining *Direct Broadcasting by Satellite (DBS)* frequencies will be advertised by the Independent Broadcasting Authority (IBA) early next year. This will provide scope for two further UK DBS channels in addition to the three being provided by British Satellite Broadcasting (BSB).
- Viewers will continue to be able to receive *other satellite services* directly, including those from the proposed medium-powered *Astra* and *Eutelsat II* satellites. Steps will be taken to ensure that the programme content of all such services is supervised.

- All television services (including those of the British Broadcasting Corporation (BBC)) will be given freedom to raise finance through *subscription* and *sponsorship* (subject to proper safeguards). All services (except the BBC) will also be free to carry *advertising*.
- A new agency, the *Independent Television Commission* (ITC), will be established in place of the Independent Broadcasting Authority (IBA) and the Cable Authority to license and supervise all parts of a liberalised commercial television sector. It will operate with a lighter touch than the IBA but will have tough sanctions. Its functions are set out in the Annex to this White Paper.
- The *BBC* will continue as the cornerstone of public service broadcasting. The Government looks forward to the eventual replacement of the *licence fee* which will, however, continue for some time to come.
- The *night hours* from one of the BBC's channels will be assigned to the ITC. The BBC will be allowed to retain the other set on the basis that it uses it as fully as possible for developing subscription services.
- The part played by *independent producers* in programme making in the UK will continue to grow.
- The Government will proceed with its proposals for the deregulation and expansion of *independent radio*, under the light touch regulation of a new *Radio Authority*.
- All UK television and radio services will be subject to *consumer protection* obligations on such matters as taste, decency and balance.
- The *Broadcasting Standards Council* (BSC), established to reinforce standards on taste and decency and the portrayal of sex and violence, will be placed on a statutory footing.
- The exemption of broadcasting from the *obscenity* legislation will be removed.
- There will be a major reform of the *transmission* arrangements, giving scope for greater private sector involvement.

1.4 The likely timetable for the main additional television services in prospect is summarised in Table 1.

1.5 Comments on the Government's proposals should be made by 28 February 1989 to the Under Secretary of State, Broadcasting Department, Room 669, Home Office, 50 Queen Anne's Gate, London SW1. Thereafter, the Government intends to bring forward at the earliest opportunity legislation to give effect to those of the proposals in the White Paper for which legislation is needed. In framing the legislation the Government will have discussions with the relevant regulatory and other bodies, and will take account of any views on its proposals.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

14 April 1989

Dear Andrew

BROADCASTING : NO 10 MEETING ON THE QUALITY FACTOR

You asked for suggestions on those who might be invited to the proposed informal meeting at No 10 on quality in broadcasting, and about its possible format.

... I enclose a list containing some possible names, with alternatives. The list concentrates, as agreed, on representatives of smaller regional ITV companies. It includes some new style ITV operators, such as Leslie Hill and Greg Dyke, and also some younger people with recent experience of programme making. It also includes some critics of the white Paper.

... Given that the Prime Minister and the Home Secretary see this as a private and informal occasion, it does not seem necessary to provide background papers or any detailed agenda. All those who might be invited will be well aware of the matters Ministers are considering. On the other hand it seems worth trying to constrain discussion within the parameters of agreed Government policy. The Home Secretary suggests, therefore, that a brief note on the lines of the draft attached might be sufficient to indicate the purpose of the meeting. When the attendance is settled it might be worth selecting one person to introduce each topic.

The Home Secretary has asked me to point out that broadcasting is a large and gossipy village, in which there will be much speculation as to who was invited by the Prime Minister to this occasion and why. It will therefore probably be best to insist on its total informality, and so not to include George Russell, Chairman of the IBA, who will in any case be able to present his proposals at MISC 128.

Yours sincerely
Catherine Bannister

MISS C J BANNISTER

Andrew Turnbull, Esq
Principal Private Secretary

PEOPLE WHO MIGHT BE INVITED

David McCall	Anglia, former Chairman of ITVA
Donald Walters OR James Graham	Grampian Border
Leslie Hill OR Greg Dyke OR Christopher Bland	Central LWT LWT
Phil Redmond	Independent producer from Merseyside, eg of "Brookside"
Sir Alistair Burnet OR David Nicholas	ITN ITN
John Birt OR Jonathan Powell OR Paul Fox	BBC, ex-LWT Controller, BBC 1 BBC, ex-Yorkshire TV
Michael Grade	Channel 4
Ken Miles	Incorporated Society of British Advertisers
Richard Hooper	P A Consultants (ex-Super Channel). (He made a stimulating contribution to the Prime Minister's seminar.)

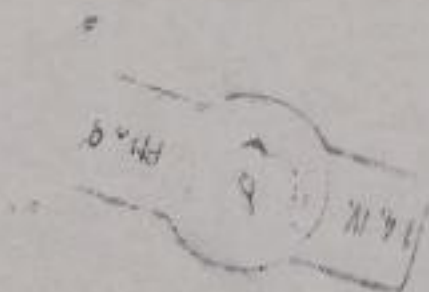
TOPICS FOR DISCUSSION

Paragraph 6.11 of the White Paper lists a number of positive programming requirements for Channels 3 and 5, including regional programming requirements. Should any of these be modified or expanded, or should new requirements be added? How far will other services (whether BBC, Channel 4 or new services) provide both quality and diversity?

2. These requirements provide a minimum quality threshold. What are the likely incentives and disincentives for those obtaining Channel 3 or 5 franchises to fall below/live up to/go beyond that minimum, bearing in mind both commercial pressures and likelihood of increased competition and also the performance reviews and sanctions proposed in paragraph 6.19 on the White Paper.

3. The Government has made clear that franchise allocation must be more objective and the procedure more transparent than in the past, and that competitive tendering must form part of the procedure. To what extent, and in what respects, may it be desirable to modify the suggestions made in the White Paper so as not to jeopardise programme quality? What are the advantages or disadvantages of the proposals recently made by the IBA?

Rosendating France!



RA

PRIME MINISTER

BROADCASTING

As Brian and I warned you this morning, there is, I fear, a large volume of paper for you to look at on Broadcasting. Most of this is for next Thursday's meeting of MISC 128. But there are also some other aspects that can be dealt with outside that Committee.

This minute is designed to guide you through the papers that follow.

Issues To Settle Outside MISC 128

(a) When you saw Douglas Hurd earlier in the week, he raised with you the possibility of an informal meeting with outsiders on quality in Broadcasting. At Flag A is a note from the Home Office suggesting names, together with a comment from Brian Griffiths which recommends against such a meeting. Andrew and I both share Brian's doubts. You will want to consider whether:

- to keep open the possibility of such a meeting until after the MISC 128 discussion;

Yes not

OR

- to decide now to drop the idea.

(b) Another point outstanding from your meeting with the Home Secretary is whether the Lord President should join MISC 128. Robin Butler's minute at Flag B recommends against. You will want to consider whether to accept that recommendation.

The L.P. should join much later when the main decision are known - the Parliamentary Commission can be asked.

(c) In the folder at Flag C is a set of papers on local services and the possibility of a Channel 6. These

points have been discussed in detail at official level, and the hope is that they can be agreed without the need for MISC 128 discussion. You will see from Brian's note in that folder that he endorses the proposals.

In view of this, you may feel it unnecessary to spend time working through the Flag C papers, other than Brian's note, and be content to agree this package without reference to MISC 128.

Content:

- (a) To drop the idea of a separate meeting on quality in Broadcasting? Yes
- (b) To leave the Lord President off MISC 128? Yes
- (c) To agree the local services and Channel 6 points without reference to MISC 128? Yes

MISC 128 Papers

There are three items for discussion on Thursday. The papers are enclosed in the three further folders below:

- I ← Overview discussion on implementation of the Broadcasting White Paper. The papers are a minute from Douglas Hurd (which you saw before your recent talk with John Wheeler), a Cabinet Office brief and a note by Brian Griffiths.
- II ← Ownership. There is a Home Office paper and briefs by Cabinet Office and Brian Griffiths.
- III Channel 4. There is a Home Office paper and briefs by Cabinet Office and Brian Griffiths.

You will see that on all three items Brian has substantial worries about the Home Secretary's proposals.

Finally, at the very back of the folder is a copy of the White Paper, in case you wish to refer back to it.

Patricia A. Parkin.

JP PAUL GRAY

14 April 1989

Duty Clerk.

DS3AHP

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PRIME MINISTER

14 April 1989

Expenditure

LSP

CHANNEL 4

why? The Home Secretary rejects a privatised C4 or a link between C4 and C5. He opts for restructuring C4 as follows:

- (a) a non-profit subsidiary of the ITC;
- (b) selling its own advertising independently of C3;
- (c) receiving a guaranteed income of 14% of NAR (net Advertising Revenue);
- (d) the source of the guarantee would be the revenue of the competitive tender procedure (presumably C3, C5 and local delivery licences);
- (e) C4 should hand over any financial surpluses to the ITC;
- (f) C3 and C5 must announce at programme junctions the next programme on C4 - but C4 would have no such reciprocal obligations; why?
- (g) S4C would be funded out of the revenue from the tender.

COMMENT

This proposal is nothing less than astonishing. It is ill thought-out and needs root and branch revision. The basic problem is the incentives it creates for C4 to be inefficient eg

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- C4 has little incentive to sell its advertising time,
as a shortfall will be made up from guaranteed income;
- the growth of guaranteed income will set the pace of
the growth of costs;
- the Chief Executive of C4 has every incentive to lobby
the Home Office by playing politics to get as much
deficit finance as possible.

The Treasury will suffer apoplexy when they realise that revenue which is theirs (ie the product of the tender process) and for whom they are simply stewards on behalf of the taxpayer, is being allocated without their having any control.

The Privatisation Option

I am still not convinced that this option is unworkable. The argument against is that

- (i) the advertising income of C4 is not sufficient
for it to be viable, and
- (ii) the remit will come under pressure for commercial reasons; it is impossible to hold the line on quality.

On the first point I find it very curious that the advertisers as a group believe that C4 could raise more revenue than at present - whereas the Home Office reject their argument.

I believe you need more evidence on this point.

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14 April 1989

BROADCASTING: OWNERSHIP

The Home Secretary has proposed special rules to be applied to the ownership of broadcasting companies.

Their objective is to prevent commercial concentration to prevent cross-media interests developing and to prevent religious and political bodies from acquiring franchises.

The 22 rules set out by the Home Secretary (Annex A) however, are very rigid. They exclude:

- why?
- all non-EC companies (except in cable)
 - record manufacturers and music publishers (eg Virgin);
 - ownership of more than one ITV franchise (except on public interest grounds - to be judged by the ITC);
 - newspaper proprietors could hold up to 25% of a Channel 3 franchise, but any holding over 10% would need to be vetted by the ITC;
 - satellite TV companies may not own more than 10% if this is judged (by the ITC) to be against the public interest;
 - satellite TV companies from owning more than so many channels.

The real objective of these rules is to clip the wings of a Murdoch or a Maxwell. But the real beneficiaries are the existing ITV franchise holders who face far less competition at the next tender.

These rules could mean that Thames might be owned by an Italian, Southern by a Frenchman, and Central by a German, but that Canadians, Australians and Americans would be unable to own UK franchises. This is the unacceptable face of a new protectionist Europe. *Agreed*

All ITV companies will be subject to our legislation and the ever-watchful eye of the ITC, as well as the Broadcasting Standards Council. In view of the fact that we cannot keep out continental Europeans then it is surely at these points that we should insist on standards and not at the point of ownership.

Conclusion

There must be grave doubts as to how much we will actually achieve by these ownership restrictions, other than to provide a further stimulus to satellite TV and offshore operations.

Recommendations

The Home Secretary's proposals need to be scrutinised by DTI before being accepted.

Brian Griffiths

BRIAN GRIFFITHS

14 April 1989

MISC 128: IMPLEMENTING THE BROADCASTING WHITE PAPER

The Home Secretary has sent you a scene setting minute outlining ways in which the White Paper proposals might need to be modified.

The burden of his minute is that:

- (i) there is a trade-off between quality and increased competition in broadcasting;
- (ii) the consultation process has shown great support for existing quality on British television, which would be jeopardised by increasing competition;
- (iii) and that we should modify the White Paper proposals to ensure greater quality and less competition.

The major areas in which modifications need to be made are the tendering process for franchises, the funding and structure of C4 and the rules on ownership.

I believe you need to take a sceptical look at these proposals for a number of reasons:

(a) Quality versus Competition

- the content of American television is not simply bland sitcoms, police films, quiz shows, and "wall-to-wall Dallas."
- I enclose a table of the Top 20 US Cable Networks:

these include news channels (CNN, FNN, Cable-Satellite Public Affairs, Headline News) an Arts & Entertainment Cable Network and the Discovery Channel.

- I also enclose a copy of a paper I sent you last year "Is American Television that Bad?" published by the IEA.

This is a point of view which has not been sufficiently exposed in the consultation.

- In any case, given that we have BBC1, BBC2 and that C4 will remain with a public service remit, the UK will retain three major public service broadcasting channels. This is greater than any of our leading European neighbours or the US. In addition, C3 is also to have certain requirements imposed on it.

(b) Who Submitted Evidence?

Most of the evidence submitted to the Home Secretary and on which he has based his judgements has come straight from the vested interests of the television industry:

- the 15 ITV companies themselves
- the IBA
- C4
- S4C
- Campaign for Quality TV
- Broadcasting Research Unit (financed by the industry)
- ITVA (Independent TV Association - another industry body).

Special place is given to the House of Commons Home Affairs Select Committee - which once again has been lobbied ferociously by the industry.

(c) Powers of the ITC

A major advantage of a deregulated commercial and independent television sector in the UK is that it would mark the end of the IBA. The new ITC was envisaged as having limited powers.

But in the proposals the Home Secretary is putting forward the new ITC would have the following powers:

- it would own C4, which would have a guaranteed income;
- it would ensure that C4 was advertised on Channels 3 & 5 but not vice versa;
- it would monitor the public service broadcasting requirements on C3 and C5 (regional programming, quality and diversity, news etc);
- it would ensure that the 25% quota of independent production of C3 was being maintained; and BBC?
- it would supervise ITN;
- during the tender process for licences for C3, it would interpret the quality threshold and the "quality of money" test;
- it would select the applicant for the franchise;
- it would monitor consumer protection requirements (eg impartial and accurate news, advertisements, taste and decency etc);
- it would monitor takeovers;

- it would operate the sanctions of the yellow and red card;
- it would allocate the licence (by tender) for Channel 5;
- it would allocate licences by tender for local delivery operators.

And so on.

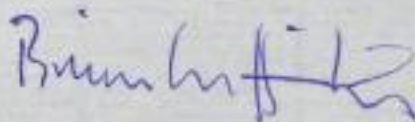
The less competition there is, and the more quality there is, the greater is the power of the ITC!

Conclusion

The Home Office were never that happy with the White Paper. They have used the consultation process and the Select Committee's Report as a way of substantially modifying the White Paper proposals. All of the changes so far proposed by the Home Secretary are in the interests of the ITV companies.

Recommendations

- (1) You need to challenge the intellectual foundations of the Home Secretary's assessment of the scene. Of course any practical proposal which leads to efficiency should be accepted. Most so far are simply an attempt to retain more elements of the present system.
- (2) Detailed proposals on C4, ownership and tendering need to be worked through extremely carefully.



BRIAN GRIFFITHS

TOP 20 CABLE NETWORKS

(RANKED BY NUMBER OF SUBSCRIBERS)

	VIDEO SERVICE	PROGRAMMING	DATE SATELLITE SERVICE BEGAN	CATEGORY 1/	SYSTEMS	SUBSCRIBERS
1.	ESPN Bristol, CT	Sports events/programming; business news	9/79	B/A	17,000 2/	46.1 million 2/
2.	CNN (Cable News Network) Atlanta, GA	24-hour news & special interest reports	6/80	B/A	11,000 2/	44.0 million 2/
3.	Superstation TBS (WTBS) Atlanta, GA	Independent station; movies, sports, original & syndicated shows	12/76	B/A	12,635 2/	43.4 million 2/
4.	USA Cable Network New York, NY	Family entertainment & sports programming	4/80	B/A	10,100	42.0 million
5.	MTV (Music Television) New York, NY	24-hour, all-stereo video music programming	8/81	B/A	4,590	39.4 million 3/
6.	The Nashville Network New York, NY	Country music & sports programming	3/83	B/A	6,100	38.0 million
7.	Nickelodeon New York, NY	Entertainment for kids	4/79	B/A	5,670	37.9 million 3/
8.	CBN Cable Network Virginia Beach, VA	Entertainment, family programming	4/77	NC/A	7,905	37.2 million
9.	Lifetime New York, NY	Information & entertainment especially for women	2/84	B/A	3,700	36.0 million
10.	The Weather Channel Atlanta, GA	Local, national, regional, & international weather	5/82	B/A	3,200	33.0 million
11.	C-SPAN Washington, DC	House of Representatives & public affairs programming	3/79	B	2,700	33.0 million
12.	NICK at Nite New York, NY	Entertainment for young adults	7/85	B/A	3,860	31.5 million 3/
13.	Headline News Atlanta, GA	Round-the-clock half-hour newscasts	1/82	B/A	4,000 2/	30.0 million 2/
14.	A&E Cable Network (Arts & Entertainment) New York, NY	Entertainment: series, theatre, film, music, dance	2/84	B/A	2,500	30.0 million
15.	The Discovery Channel Landover, MD	Nature, science, technology, history, exploration	6/85	B/A	2,700	29.4 million
16.	VH-1 New York, NY	24-hour video music programming	1/85	B/A	1,715	24.7 million 3/
17.	WGN Chicago, IL	Independent station: movies, sports, series	11/78	B/A	10,810 2/	24.2 million 2/
18.	FNN (Financial News Network) Santa Monica, CA	Live financial & business news	11/81	B/A	1,850	22.75 million
19.	FNN/SCORE Santa Monica, CA	Live sports news & financial data	4/85	B/A	1,150	19.2 million
20.	Cable Value Network Plymouth, MN	Home video shopping	5/86	NC	1,730	18.5 million

1/B - basic service; small fee/per subscriber paid by operator; usually no additional fee paid by subscriber// A - service accepts national advertising// NC - no charge to subscriber or operator// P - pay/premium service: per subscriber fee paid by operator; subscriber pays added fee

2/Includes SMATV affiliates as well

3/Based on A. C. Nielsen data

SOURCE: NCTA National Cable Network Directory, March/April 1988
Data received from services; audio and text services not included; system figures have been rounded off.

14 April 1989

Agreed MB

BROADCASTING: LOCAL SERVICES AND CHANNEL 6

This was the area of the White Paper in which Ministers and officials had little first-hand knowledge. It was also the most complex area, and probably for these reasons, the one least thought out.

The consultation process on cable has been very useful. Cable companies, and especially US companies which have considerable experience of cable in the US, have made excellent submissions. As a result, the official group have proposed major amendments which the Home Secretary has circulated for approval.

The Policy of the White Paper

This was to:

- (i) permit local operating companies to provide local broadcasting and television services, using either cable or MVDS - the choice being based on commercial considerations and with government therefore being technology neutral;
- (ii) restrict companies to either the delivery or the retailing of local services;
- (iii) allocate local delivery franchises by competitive tender;
- (iv) impose a levy on local services;
- (v) compel the ITC to consider issuing second franchises in local areas after a short period of time.

Revised Proposals

(i) Separation of Delivery and Retailing

The basis of the separation, as well as the tender system of allocation and the award of the second franchise, was on grounds of competition policy.

Potential investors, however, have made it abundantly clear that there is no way in which they will continue investing in cable if such a restriction is introduced. The financial returns are so reduced by this process that the investment is not worthwhile. An excellent study by Charles Jonscher (who has done very good work for both Home Office and DTI) confirms this view. It suggests rates of return on capital falling from 25% to between 2% and 8% depending on how rigidly separation is enforced.

From the point of view of competition policy, the key distinction is between a mature and an immature industry. At a time when cable and MVDS are just getting going, and they face the extra competition from satellite and Channel 5, monopoly considerations are hardly likely to be major ones. When the whole of the country is cabled, and the industry is mature, it could be a different story.

Meanwhile, the Home Secretary is right to abandon the rigid separation.

(ii) Levy

Once again, a levy over and above general taxation only makes sense to reduce monopoly profits. Because of the infancy of cable and MVDS, potential competition from other sources, as well as the competitive tender for franchises in the first place, the introduction of a levy makes little sense.

✓

The Home Secretary is right to recommend withdrawing this proposal.

(iii) Second Franchises

Quite apart from the fact that existing franchises may not be very profitable, it is doubtful if sufficient spectrum exists for this purpose.

The Home Secretary is right not to impose a requirement on the ITC to issue a second franchise in a short period of time, but should the opportunity present itself, the ITC should have the right to do so.

(iv) SMATV

(Satellite Master Antenna Television, ie [typically] a communal dish for a block of flats, or to feed a small area by cable from the dish.

The White Paper said nothing on this, but it has emerged as an important problem for Sky Television.

SMATV systems can only be established with a licence from the Cable Authority. Because the Cable Authority has a duty to promote cable, it has not generally been willing to licence SMATV systems to protect existing cable systems and to avoid prejudicing its future franchising policy.

The case for liberalising is:

- a) the ITC is not being set up to promote cable - it is meant to be technology neutral;
- b) people living in blocks of flats will not be able to receive satellite TV unless the current system is changed.

The Home Secretary recommends substantial liberalisation which should certainly cover the requirements of Sky. Once again, this deserves to be accepted.

Local Services: Recommendations

Accept the Home Secretary's revised proposals to:

- (i) ✓ permit operating companies to combine delivery and retailing;
- (ii) ✓ withdraw the levy;
- (iii) ✓ allow second franchises but not make them obligatory;
- (iv) ✓ liberalise SMATV.

The Home Secretary also recommends two minor changes:

- (a) phrase the announcement in such a way that it does not rule out introducing pricing to allocate unwanted spectrum;
- (b) to ensure that existing cable operators are not disadvantaged by the new proposals involves defining what "existing" means: the new proposal does so by including both operators awarded franchises before the publication date of the White Paper, and those whose will be successful but which were submitted before that same date.

Both of these are sensible.

Channel 6

The proposal from David Young is not to proceed with further work for Channel 6 because:

- for Channel 6 to extend its coverage to 40% of UK households would require 20,000 viewers in up to 10 areas being unable to receive either BBC1, BBC2, ITV or C4;
- extending Channel 6 would mean abandoning the installation of 200 relay transmitters to bring existing terrestrial services to an extra 350,000 people;
- it would also involve spectrum capacity problems for existing outside broadcasts plus independent producers;
- Channel 6 would require households to install yet another aerial.

Recommendations

As deregulation is already providing substantial extra competition, the costs of Channel 6 appear much larger than the benefits the extra channel would provide.

Accept David Young's proposal: the suggested [PQ] answer is very clear.

Brian Griffiths

BRIAN GRIFFITHS

14 April 1989

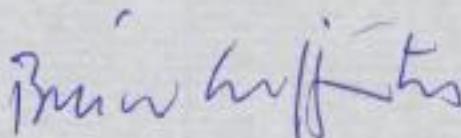
BROADCASTING: NO 10 MEETING ON THE QUALITY FACTOR

I am extremely sceptical that such a meeting will have any positive value. It will simply be a lobbying exercise by the industry to limit competition. They have made their case very cogently in the consultation process. I do not think there is anything to be added.

The Home Office has provided a list of names. All are major players in the system, whose views we already know, and all have a vested interest in emphasising quality because they wish to restrict competition. (The only exception is Richard Hooper).

RECOMMENDATION

Such a meeting has little value. My own view would be against holding it.



BRIAN GRIFFITHS

c cepu ✓



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

PRIME MINISTER

MISC 128: MONITORING THE 25 PER CENT INITIATIVE

David Young's minute of 6 April put forward proposals for monitoring the target that 25 per cent of programmes in television schedules should be independently produced. *(file with PG)*

The BBC's refusal to provide the information needed to monitor objectively their contracts with independent programme producers is very disappointing. Unless the Office of Fair Trading are allowed to do this we cannot know whether the BBC and IBA are contracting out work to genuinely independent producers. Individuals represented by the Independent Access Steering Committee (IASC) will only be aware of the terms available to them: former employees of the BBC, or other individuals, offered particularly favourable conditions are unlikely to complain. Quarterly discussions between IASC and the Director General of Fair Trading would be an improvement on present arrangements, but they would not constitute objective monitoring of our agreed target.

I note that the IBA and IASC would be content for the OFT to monitor their contract terms. I suggest this should be organised to supplement and inform the proposed quarterly discussions between the Director General of Fair Trading and IASC. If the BBC decline to co-operate with this monitoring, and reports continue to circulate that they do not take the 25 per cent target



seriously, then the case for further action to encourage competition would be irresistible.

I am copying this minute to colleagues on MISC 128 and to Sir Robin Butler.

NL.

[NL]

14 April 1989

Broadcasting

Policy Part 7



CONFIDENTIAL



B
CCF
QUEEN ANNE'S GATE LONDON SW1H 9AT

13 April 1989

Dear David,

MISC 128: MONITORING THE 25% INITIATIVE

(at 10:45)
Thank you for sending me a copy of your minute of 6 April to the Prime Minister.

As MISC 128 recognised, it is important to ensure that as well as making greater use of independent producers the broadcasters should offer them reasonable terms of trade. This is a complex business and I favour using the skills of a body such as the OFT to monitor what is going on. I think the scheme which the DGFT proposes is right in the circumstances. It has the merit of directly involving the body which speaks for independent producers.

A copy of this letter goes to the Prime Minister, other MISC 128 colleagues and Sir Robin Butler.

Young
Rt Hon

The Rt Hon Lord Young of Graffham
Department of Trade and Industry



BROADCASTING : POLICY Pt 7

dti

the department for Enterprise

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

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the
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SW1H 9AT

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1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422

Our ref PS2CDJ

Your ref

Date 12 April 1989

Dear Secretary of State,

You will recall that the technical studies which led to our decision to establish a fifth terrestrial UHF television network (Channel 5) also identified, subject to further study, the possibility that there might be scope for a limited sixth UHF network (Channel 6). MISC 128 subsequently decided that the possibility should be pursued further, and we announced in the Broadcasting White Paper (paragraph 5.8) that we had put in hand the necessary further study.

I have concluded that, subject to your view and those of MISC 128 colleagues, I would propose to announce that in the light of the results of our technical studies so far, we have decided not to pursue further work on Channel 6 for the foreseeable future, and that we have agreed that the moratorium on the building of additional relay transmitters ... should be lifted. I attach a suggested form of words for such an announcement, which might be by way of a written Parliamentary Answer, timed to coincide with your announcement at the end of this month of further decisions on the local service aspects of the White Paper.

... I append to this letter a copy of the Executive Summary and Conclusions of the technical feasibility report.

the
Enterprise
Initiative

Broadly, the report concludes that:

- The best prospects of achieving a sixth UHF television network lie in making a more intensive use of the 44 channels currently used to provide the four existing UHF services.
- If off-air reception of the four existing UHF services is to remain intact, Channel 6 would be unable to achieve more than about 17% of UK households and there would, for example, be no coverage of all of the London area.
- But Channel 6 coverage might be extended to as much as 40% of UK households if we could agree that perhaps 20,000 viewers in up to 10 areas (mainly in London and the North West) should lose the ability to receive off-air one of the four existing UHF services. The Channel 6 franchisee could be required to restore the lost service by cable or some other means to those viewers, who would also generally be unable to receive off-air either Channel 5 or Channel 6.
- Other adverse consequences would include the virtual abandonment of the programme to instal some 200 further relay transmitters to bring the four existing UHF services to many of the 350,000 people who are still unable to receive them.
- Additionally, because the broadcasters currently make as much use as they can of the remaining "spare capacity" within the 44 channels to accommodate some of their programme-making requirements, the loss of this capacity to Channel 6 would create a major problem in finding suitable alternative spectrum for the programme-making (including outside broadcast) activities of the broadcasters. Even without this, there is already the greatest difficulty in accommodating the programme-making needs of Sky, BSB and the other new wave of broadcasters.
- Most viewers would need to instal a third UHF aerial to receive Channel 6.
- The results of the study might be better viewed as offering the possibility of a number of separate regional franchises rather than a limited further

national channel, though substantial further work would be needed to take the study forward in this or any other direction.

My own view is that the very considerable costs and penalties attached to Channel 6 on this basis are simply not justified by such a limited result, especially at a time when there is the promise of a considerable proliferation of new television networks - satellite, local cable/MVDS, and Channel 5. I see little point in pursuing the studies further for the foreseeable future.

If we wished to preserve the options on Channel 6 until the picture on other new services has become clearer, the present moratorium on the building of additional relay transmitters would need to be extended for perhaps several more years. The broadcasters' planning and installation teams would inevitably have to be disbanded fairly quickly, and this would in effect spell the end of the relay transmitter building programme. I do not believe that this would be right.

I am sending copies of this letter and its attachments to the Prime Minister, to our MISC 128 colleagues, and to Sir Robin Butler.

Handwritten notes:
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**SUGGESTED PARLIAMENTARY ANSWER ANNOUNCING DISCONTINUATION OF FURTHER STUDIES
ON CHANNEL 6 AND LIFTING OF MORATORIUM ON ADDITIONAL RELAY TRANSMITTERS**

Paragraph 5.7 of the Government's White Paper "Broadcasting in the '90s: Competition, Choice and Quality" stated:

"In the longer term, a sixth network at UHF covering up to 50 per cent of the population might be feasible. But this has not yet been studied in detail, and the cost and interference implications could be significant. Further study is also needed of the implications for existing users of the spectrum involved. The Government has put these studies in hand."

After careful consideration of the results of the technical feasibility studies carried out so far, the Government have decided not to pursue the studies further for the foreseeable future.

The studies show that the best prospects of achieving a sixth terrestrial UHF television network (Channel 6) lie in making a more intensive use of the 44 channels currently used to provide the four existing UHF services. However, if off-air reception of the four existing UHF services is to remain intact, Channel 6 would be unable to achieve more than about 17% coverage of UK households and there would, for example, be no coverage at all of the London area. The technical studies have shown that it might be possible to extend Channel 6 coverage to as much as 40% of UK households, but the price would be that perhaps 20,000 viewers in up to 10 areas (mainly in London and the North West) would lose the ability to receive off-air one of the four existing UHF services. The Channel 6 franchisee could of course be required to restore the lost service by cable or some other means to those viewers, who would

also generally be unable to receive off-air either Channel 5 or Channel 6.

There would however be other adverse consequences. These would include the virtual abandonment of the programme to instal some 200 further relay transmitters to bring the four existing UHF services to many of the 350,000 people who are still unable to receive them. Additionally, because the BBC and the independent television programme companies currently make as much use as they can of the remaining "spare capacity" within the 44 channels to accommodate some of their programme-making requirements, the loss of this capacity to Channel 6 would create a major problem in finding suitable alternative spectrum for the programme-making activities (including outside broadcasts) of the broadcasters, at a time when spectrum for these purposes is at a premium to meet the needs of the new wave of satellite and other broadcasters. A further disadvantage is that most viewers would need to instal a third UHF aerial to receive Channel 6.

Substantial further study would now be needed to take this work further forward. The Government have taken the view on a careful analysis of the studies so far that the very considerable costs and penalties attached to TV6 on this basis are simply not justified by such a limited result, especially at a time when there is the promise of a considerable proliferation of new television networks - satellite, local cable/MVDS, and Channel 5. If we wished to preserve the options on Channel 6 until the picture on other new services has become clearer, the present moratorium on the building of additional relay transmitters, which has now been in force for some eighteen months, would need to be extended for perhaps several more years. This would almost certainly spell the end of the programme to extend progressively the UHF network to cover those who are at present unserved, or inadequately

served, by it. We do not regard this as an acceptable consequence, and we have agreed that the moratorium should now be lifted.

REPORT OF THE STEERING GROUP ON THE TECHNICAL FEASIBILITY OF A
SIXTH TELEVISION NETWORK AT UHF

EXECUTIVE SUMMARY AND CONCLUSIONS

1. In making public, by means of a written Parliamentary answer on 28 July 1988, the broad conclusions of the study into the technical feasibility of a fifth terrestrial television network at UHF, the Secretary of State for Trade and Industry said:

"A more intensive use of the 44 current broadcasting channels might, however, play a part in the provision of a sixth UHF network. Although the Group's terms of reference did not include the feasibility of a sixth UHF network, they concluded that such a network covering over 50% of the population should not be ruled out as a possibility in the slightly longer term, though its cost could be significantly greater. Further study would be needed to identify this possibility with greater precision. It would depend on securing access to one or more of channels 36, 38, and 69, all of which are currently used for other purposes and may also be crucial to accommodate users displaced from channels 35 and 37. It is possible that benefits in coverage could be obtained if the fifth and sixth services were planned together using all the available channels, although they could thereafter be implemented over different timescales. Nevertheless this would probably delay the introduction of the fifth service beyond 1992."

In accordance with the subsequent remit from Ministers we have carried out such a study within the constraints of time and resources available to us.

2. Contrary to earlier hopes, we have found that no use can be made of channel 69 to provide coverage for a sixth television network at UHF (TV6), and that the constraints on the use of channels 36 and 38 are so substantial that the resulting minimal coverage would in no way justify the costs, delays, uncertainties and disadvantages that would be involved. However, our study has revealed that some low power use of channel 36 in particular might in future be made, perhaps most usefully to extend slightly the coverage of TV5. Further work would be needed to identify these possibilities with greater precision.

3. Based therefore entirely on what might be achieved through a more intensive use of the 44 channels currently used to provide the four existing UHF television programme services, we have found that the coverage achievable by a sixth UHF television network would be unlikely to exceed some 17% of the population. There would, for example, be no coverage at all of the London area.

4. This finding is based on the assumption that Ministers may be unwilling to countenance any diminution, however small, of the almost universal coverage achieved by the four existing DHF programme services. But if some small diminution in the off-air coverage of one of the existing four services can be accepted, subject to its restoration to viewers by some other means, we have found that it would then become possible to extend the coverage of TV6 from around 17% to perhaps as much as 40% of the population, including much of London (the coverage map at Annex A gives further detail). It should prove possible to introduce such a service within the same timescale as that envisaged for TV5 (1 January 1993). This finding is however subject to a number of uncertainties, and its implementation would carry with it several important penalties beyond the diminution in off-air coverage of an existing service referred to above.

5. The extent of this diminution is that a number of pockets of viewers - perhaps 10 such areas at most, spread throughout the country, and amounting in total to some 20,000 viewers - served at present by relay stations would lose the ability to receive off-air one of the existing four programme services - and it would no doubt fall to Ministers to decide which one. Further details are shown in the table at Annex B. The people so disadvantaged would also be unable to receive either TV5 or TV6 broadcasts. We have assumed that acceptance of this diminution - if indeed it can be accepted at all - would be wholly dependent on a requirement that the TV6 franchisee should restore, by an alternative delivery mechanism, the missing service to all those who had been deprived of the ability to receive it off-air. We have accordingly had a very brief and preliminary look at the practicalities of using cable for this purpose. Unsurprisingly, these appear to vary substantially depending on whether the homes of the viewers concerned are already passed by a broadband cable network, or whether a purpose-built system would need to be provided at an average initial capital cost of perhaps £0.8 million.

6. It should also be noted that TV6 will almost invariably be available only in areas also covered by TV5 transmitters (though because the coverage of TV6 will be substantially less, many TV5 viewers will be unable to receive it). Thus TV6 will be of no recompense to the minority of viewers unable to receive TV5. Indeed, its existence may cause them to feel doubly deprived. Further, because there will generally be no spare channels with which to provide in-fill relay stations, even within the nominal coverage area of a TV6 transmitter actual coverage is likely to prove somewhat more patchy than the near-universal coverage achieved by the four existing programme services.

7. The uncertainties referred to in paragraph 4 above include the need for international clearance of the frequency channels we envisage for use at the specific sites, powers and emission characteristics on which our planning has been based. Modifications which we might need to make to secure international agreement could reduce coverage still further, and prolonged negotiation could jeopardise the start date for the new service. But because the

frequency channels used in the plan are all from within the 44 channels already used for UHF television, problems of obtaining the necessary international clearance may be less than if we had been able to make use of channels 36, 38 and/or 69 as originally hoped.

8. A second uncertainty relates to ability of the existing transmitter masts to accommodate the additional aerials that would be needed to transmit TV6. If in some instances new masts were required, or existing structures had to be strengthened, or the new aerials could only be accommodated at lower apertures on existing masts, there could be delay to the introduction of TV6, and coverage might be less than we have projected.

9. The penalties or disadvantages of attempting to squeeze provision for TV6 from the present 44 broadcasting channels include major consequences for the ongoing programme of the broadcasters to install around 25 new relay stations each year for the foreseeable future to bring the present services to established or new communities not covered, or inadequately covered by the existing transmitter network. The current coverage of 99.4% is rightly regarded as an impressive achievement, but the remaining 0.6% nevertheless represents some 350,000 people. The broadcasters have already identified some 200 communities, each typically of between 200 and 1,000 people, for inclusion in their forward programme of building relay transmitters. Over much of the UK further progress towards completion of the transmitter network would be much curtailed or halted altogether.

10. However, the most intractable problem would be the repercussions on the spectrum available for programme-making. It is the production of programming that represents, by orders of magnitude, the highest value element in broadcasting. Programme makers rely fundamentally on access to the spectrum for a wide variety of specialist uses - often referred to as services ancillary to broadcasting, or outside broadcast links - such as the links needed to convey an outside broadcast (eg sporting events and State occasions) back to the studio, the links needed for electronic news gathering, links with mobile units (eg cameras in helicopters), talkback links between a director and all camera and other units under his control, links for cue and camera control, and various types of radiomicrophones. The Merriman Committee in their 1983 review of the spectrum between 30 and 960 MHz drew particular attention to the need to make reasonable provision of spectrum for these purposes, especially for the emerging independent sector. Despite a subsequent major review by consultants of the spectrum needs of the the broadcasting organisations and the independent sector for programme-making purposes, finding sufficient spectrum for these purposes has remained an intractable problem. In particular we have singularly failed to meet even the most modest aspirations of the now burgeoning independent programme-making sector, to whom in other respects it has been government policy to give every encouragement.

11. We would doubtless have been in almost equal difficulty with the BBC and the ITV programme companies had we not adopted the

policy - advocated by Merriman - of encouraging them to make the maximum possible use of the 44 channels to accommodate their needs for spectrum for programme-making purposes. This ability will become even more important with the reallocation of channel 35 for the provision of TV5, and with the expected proliferation of new broadcasting services over the next few years, all requiring programme-making facilities. The implementation of the TV6 transmitter network would very seriously inhibit the use that could be made of these "in band" channels for services ancillary to broadcasting over large areas of the country (including inevitably those where demand for such services is greatest), and we see no prospect of finding sufficient suitable alternative spectrum in which to accommodate them, other than by withdrawing spectrum from another group or groups of users such as private mobile radio or the Ministry of Defence. Ministers may recall the outcry from the mobile radio lobby last year during our study to establish whether a limited reintroduction of television into VHF bands I and III was feasible. We see this problem as representing the largest single factor militating against the introduction of TV6.

12. The study on TV5, in identifying the need for videorecorders and some home computers to be retuned from channel 36 if the adjacent channels 35 and 37 are used to transmit TV5, referred to the growing problem of finding spare channels within the tuning range of most VCRs and home computers on which to communicate with television receivers. New services such as BSB's and Astra's satellite broadcasts will also need such channels for viewers' reception equipment to communicate with their television receivers (except for the minority equipped with peritelevision sockets). A more intensive use of the 44 channels to provide TV6 could only serve to exacerbate that problem.

13. Despite these disadvantages, use of the 44 channels to provide TV6 also has some inherent advantages. Because the channels are already used for broadcasting, there are no existing non-broadcasting users to be displaced, rehoused and possibly compensated (though the cost of changing the frequencies or of adding precision frequency control at some relay stations will have to be met, together with the cost referred to above of restoring service to small communities who lose one channel from their relay station). Thus both the cost of, and the potential for delay to, the introduction of the new service are minimised.

14. Most viewers served by TV6 transmitters will find that neither the aerial with which they receive the four existing programmes, nor the additional aerial needed for TV5 reception, will provide satisfactory reception of TV6. But the cost of a third aerial (at perhaps around £50, including installation) will represent only a fraction of the cost that viewers will need to incur to equip themselves to receive, for example, the satellite-delivered programmes of Astra and BSB (though of course for their money viewers will have the potential to receive 10 - 12 English language programme channels from Astra, and 5 from the UK DBS satellite).

15. We have found it difficult, with a coverage unlikely to exceed

40%, to envisage TV6 configured as a national or quasi-national channel. We feel instead that the results of our study might be better viewed as offering the opportunity for a number of separate regional franchises covering major parts of certain conurbations such as London, Birmingham, Manchester, Glasgow/Edinburgh, and Newcastle.

CONCLUSIONS

16. This initial study has demonstrated that, if Ministers consider the price worth paying, there is in technical terms potential for a sixth TV network at DHP covering up to perhaps 40% of the population, including major parts of the main conurbations. But the price would be heavy, and would include:

- Acceptance that up to about 20,000 viewers in perhaps 10 areas spread throughout the country (including 5,000 viewers in two areas of London) would lose the ability to receive off-air one of the four existing programme services - and would be unable to receive either TV5 or TV6. The TV6 franchisee could be required to restore the lost service by some other means, such as cable, at an average initial capital cost for a currently uncabled area of perhaps £0.8 million. Without acceptance of this proviso, the coverage achievable would fall to around 17% of the population, and there would be no coverage at all of the London area.

- Acceptance that the resulting loss of spectrum for programme-making purposes by the broadcasting organisations could only be made good by withdrawing significant amounts of spectrum from some other group or groups of users (for example private mobile radio services or the Ministry of Defence). The alternative, and this is a problem we already face with the independent sector, is that producers will find it increasingly difficult to make programmes in the United Kingdom.

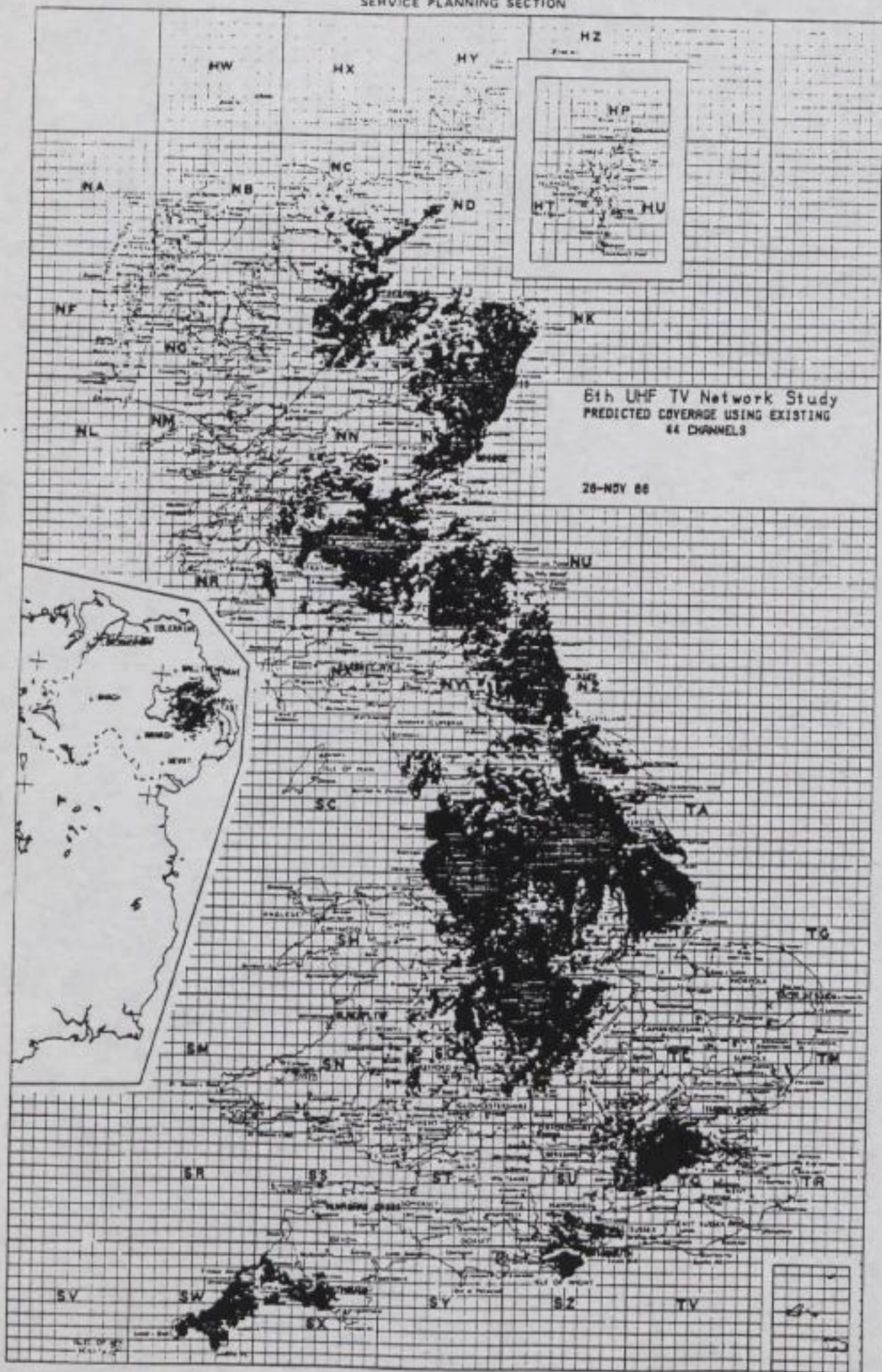
- Acceptance that the programme of the BBC and IBA to build in excess of 200 further low power relay transmitters to bring programmes to unserved pockets of population, each typically between 200 and 1,000 people (a total of around 350,000 people remain unserved), would have to be virtually abandoned.

- Acceptance that coverage of TV6, even within the nominal coverage areas of transmitters, would be patchy; and that there would be little scope to serve alternative areas to those shown on the attached map, or to achieve any significant increase in the overall coverage.

- A very substantial further planning exercise, supported by field work, would need to be undertaken to draw up a detailed plan for the new network, to specify the technical changes that would need to be introduced, and to seek to find a replacement channel wherever possible for relay transmitters from which an existing channel had been reallocated to TV6.

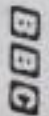
- Further study would also be needed of the practicalities of serving viewers who lose the ability to receive off-air one of the four existing programme services by some other means.
- Most viewers would need to equip themselves with a third UHF aerial (ie in addition to the aerial on which they receive the four existing programme services, and the second aerial which they will need for TV5).
- There are some uncertainties stemming from the need to secure international clearance of the proposed plan, and concerning the abilities of existing masts to accommodate the TV6 transmitting aerials. Difficulties on either of these could lead to reductions in the projected coverage, to substantial additional costs, to delay to the timescale for implementation of TV6, or to all three.

ISSUED BY BBC RESEARCH DEPARTMENT TADWORTH SURREY
SERVICE PLANNING SECTION



6th UHF TV Network Study
 PREDICTED COVERAGE USING EXISTING
 44 CHANNELS
 28-NOV 88

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ANNEX B

RELAY TRANSMITTERS WHICH WOULD LOSE ONE PROGRAMME SERVICE UNDER
TV6 40% COVERAGE PLAN

<u>RELAY TRANSMITTER</u>	<u>POPULATION COVERAGE</u>	<u>MAIN TRANSMITTER AREA</u>
Chingford	3,500	Crystal Palace
New Barnet	1,500	Crystal Palace
Ramsbottom	7,400	Winter Hill
Middleton	1,400	Winter Hill
Over Biddulph	450	Winter Hill
Harborne	1,800	Sutton Coldfield

NB It is probable that further study would identify additional relay transmitters at which, in order to avoid interference from a new TV6 transmitter, one existing programme service would have to be discontinued. It is also possible that further study might identify an alternative frequency for one or more of the relay transmitters listed above.

ANNEX C

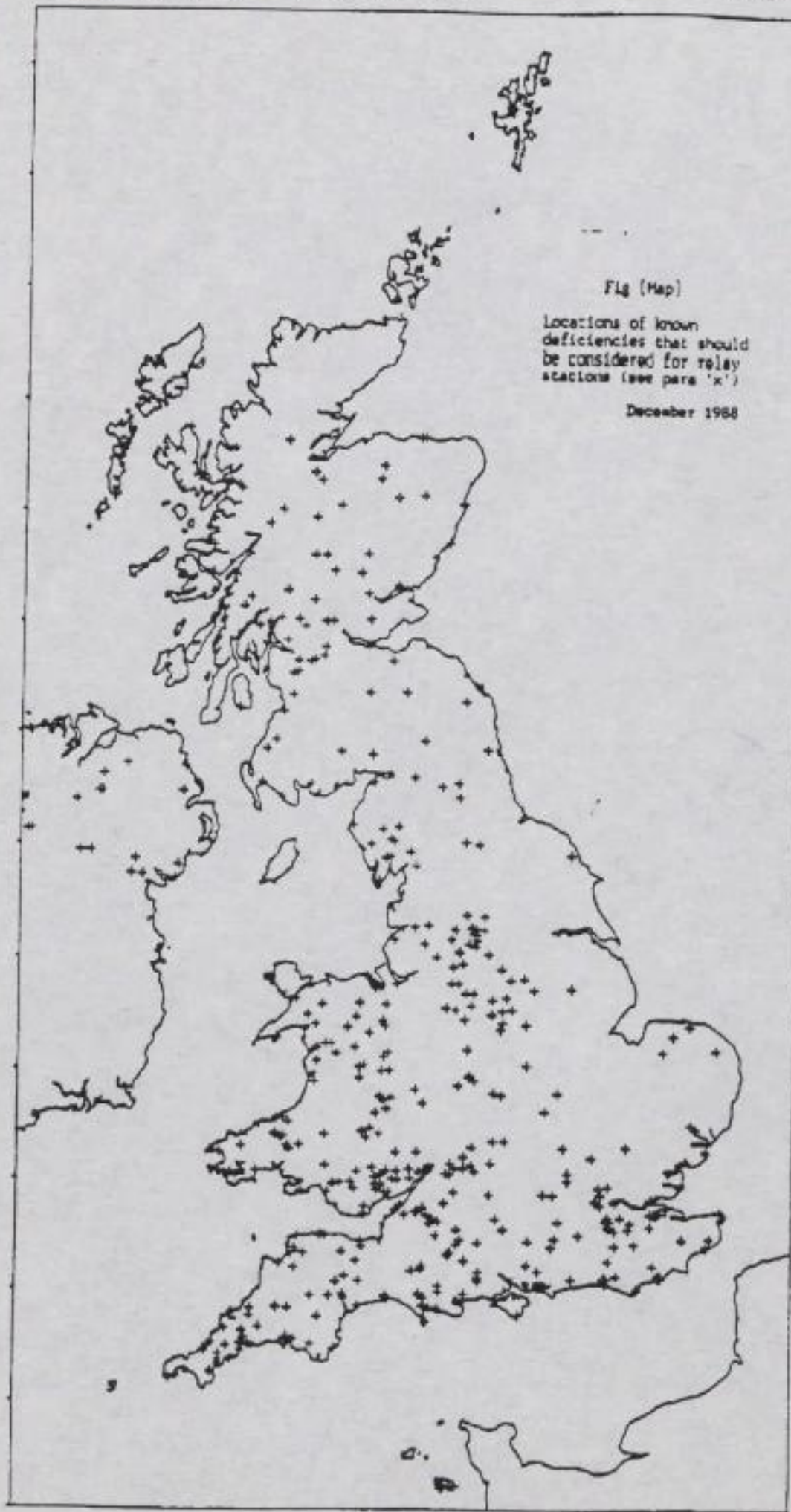


Fig (Map)

Locations of known deficiencies that should be considered for relay stations (see para 'x')

December 1968

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CP.U.



QUEEN ANNE'S GATE LONDON SW1H 9AT

10 April 1989

Dear David,

LOCAL SERVICES

atocma

PR

We undertook in the White Paper to announce our firm proposals for legislation on local services by the end of April. MISC 129 has reviewed the original White Paper proposals in the light of the comments made on them, and in its report to the Ministerial Group (MISC 128(89)1) it has recommended a number of modifications. I am writing now to seek the agreement of colleagues to those modified proposals, and to the terms of the ... attached draft announcement.

The modified proposals retain the main principle put forward in the White Paper - that there should be a flexible new technology-neutral framework for local services - but meet the main concerns expressed by the cable industry by allowing local operators to retail as well as deliver services, and by withdrawing the suggestion that they would be liable to levy. The industry will no doubt be disappointed that we have not been persuaded by their arguments against the allocation of franchises by competitive tender. I continue to believe, however, that some form of competitive tender will be the most objective method of allocating franchises, and will also reflect the fact that local franchises will in future carry with them valuable MVDS frequencies. But, as the draft announcement indicates, it would be sensible not to be too specific about the details of the competitive tender mechanism until we have had a chance to consider the comments made on our proposals for the allocation of Channel 3 and 5 licences.

There may also be some resistance from the cable industry to our proposal for the liberalisation of SMATV systems. I consider, however, that a substantial degree of liberalisation would be fully justified. The restrictive policy which the Cable Authority has hitherto adopted towards SMATV systems has been consistent with its statutory duty to promote broadband

/cable.

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

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cable. But, as the Authority has recognised, the advent of services from Astra has made this policy unsustainable, and I am glad that they are now consulting the industry with a view to loosening it up. The recommendations from MISC 129 would take this liberalisation one step further, in recognition of the fact that the ITC will not have a duty to promote cable. The revisions which the Authority is contemplating to its present policy should go some way towards meeting the concern expressed by SKY and others; and the recommendations from MISC 129 will give them ready access to the blocks of flats, which has been their main concern. I believe that the MISC 129 recommendations strike the right balance between the clear case for allowing SMATV the freedom to bring new satellite services to viewers as quickly as possible and the need not to fragment the market so much that LDO franchises would not be viable. We can keep the details of these proposals under review in the light of experience with the Cable Authority's proposed looser policy. In particular, I think that we will need to keep open minds about the exact rules on dish-sharing. MISC 129 has proposed that systems covering a single building or pairs of dwellings sharing a party wall should be covered by a class licence. While this recommendation draws the line in a logical place we may need to reconsider it if the Cable Authority decides on a more generous limit.

There are two points on which the draft announcement is silent at the moment: the frequencies which we propose to make available for MVDS; and the position on non-EC control of cable and local delivery franchises. I understand that you will be circulating proposals on the former within the next few days; our decision will clearly be an essential part of the announcement. As regards non-EC control, I proposed in my letter of 14 March that we should remove the present prohibition on non-EC control of cable franchises and not impose any similar prohibition on local delivery franchises. In your reply of 20 March you indicated your agreement. Ideally, I would like to include this in the local services announcement. However, as I said in my letter of 14 March, I would not wish to announce this in advance of a comprehensive announcement on ownership generally. I will be circulating a paper on this for discussion at MISC 128 on 20 April, and I hope that we can reach agreement then. If in the event we do not, I would propose to indicate in the announcement that we will be making the position on non-EC control clear as soon as possible in the context of a separate announcement on ownership.

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3.

Although the proposals on local services raise intricate questions of policy, they are politically less important and difficult than many of the other issues which we shall need to review in MISC 128. I therefore very much hope that, particularly given the amount of preparatory work done by officials, colleagues will feel able to agree in correspondence to these proposals and to the terms of the draft announcement. If there are any points which colleagues feel need discussion, they can be taken at MISC 128 on 20 April. But I think that there would be strong advantages in settling these questions in advance of the meeting, thereby leaving it free for discussion of Channel 4 and ownership.

I am copying this letter to the Prime Minister, the Lord President (in view of the proposed Parliamentary announcement) other members of MISC 128 and to Sir Robin Butler.

Yours,

Douglas.

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DRAFT ARRANGED PQ ON LOCAL SERVICES

To ask the Secretary of State for the Home Department if he will make a statement about the proposals in the broadcasting White Paper on local services.

DRAFT REPLY

I am grateful to all those who responded to the invitation to comment on these radical proposals.

As the White Paper undertook, we have considered carefully all the views which have been expressed, and in the light of them we have decided to make some adjustments to our original proposals. I am placing in the library of the House a note which outlines the modified proposals which we intend to recommend to Parliament.

We continue to believe that there should be a new, flexible technology-neutral framework for local services, leaving operators free to decide upon the best mix of technologies. As the White Paper noted, this will in practice mean at present cable or MVDS, or a mixture of the two. The fact that we are proposing that local operators should in future have the choice to use technologies other than cable does not imply, as some commentators have suggested, that the Government does not foresee a prominent role for cable under the proposed new framework. The advantages of cable over other delivery technologies are well known; and we have been pleased to see that many recent applicants for cable franchises have plans to exploit these advantages in order to provide telecommunications as well as television services over their networks. The point of the freedom which we are proposing should be offered to

operators is to enable them to choose which delivery technology or combination of technologies to use, based on their commercial judgement of the nature of the services for which there will be a demand. The new framework will be designed to allow operators themselves to choose the level of service they wish to offer their customers. It is, however, important for all local delivery systems to meet certain standards relating not only to safety and interference, but also to performance and compatibility. The Government, after consulting all interested parties, will decide how best this may be achieved.

In line with the White Paper, we propose that the new framework should be based on fifteen year local franchises awarded by the new Independent Television Commission (ITC). Although we have considered carefully the contrary opinions which have been expressed, we hold to the view that some form of competitive tender mechanism will be the best method for allocating franchises. It will provide an objective method for choosing between applicants, and also takes account of the fact that successful applicants will be acquiring the exclusive right to use scarce MVDS frequencies. We will be giving further thought to the precise form of the competitive tender mechanism, taking account of the comments which we have received on the proposals on the allocation of licences for Channels 3 and 5.

We envisage that, initially at least, only one franchise is likely to be awarded for any given area. It will be open to the ITC to award a second franchise if it chooses to do so; but we are no longer proposing that it should be required, as the White Paper envisaged, to consider advertising a further franchise or franchises for an area a short time after awarding the initial franchise there.

The aspect of the White Paper proposals which has attracted most comment is the suggestion that local delivery operators should

not, except at the discretion of the ITC, be permitted to retail programme services. The objective of this proposal was to provide additional scope for competition in the retailing of programme services. While we still attach importance to this objective, we accept the argument put by many commentators that the White Paper proposal could inhibit investment in local delivery networks. We now therefore propose that local operators should be able to retail programme services without restriction, and without the need for permission from the ITC.

The Government does, however, see a case for injecting competition into the local delivery and retailing of services by loosening considerably the present restrictions on the development of Satellite Master Antenna Television (SMATV) systems. The Cable Authority's policy towards the licensing of SMATV systems, [which it is presently considering relaxing in certain respects] [a relaxation in which it has recently announced], has flowed from its statutory duty to exercise its licensing powers in such a way as to promote broadband cable systems. As the White Paper indicated, the ITC will not have such a duty. We therefore believe that the restrictions placed on SMATV hitherto could not be sustained under the new framework, and we are proposing a substantial, though not total, liberalisation of SMATV systems. Under these proposals systems covering single buildings or adjacent pairs of homes sharing a party wall will be automatically licensed by means of a class licence under the Telecommunications Act 1984. Systems larger than this but not covering more than 1,000 homes would be licensed under that Act provided that, in the case of an application for a system within a franchise area, the local delivery operator (or cable operator) had been given the right of first refusal. SMATV operators would not be granted telecommunications code powers, which would in practice make it difficult for them to build systems covering more than 1,000 homes. This size limit would in any case be applied flexibly.

These proposals will be subject to review in the light of experience with [any changes in its existing policy which the Cable Authority decides to make] [the modified policy which the Cable Authority has recently announced]. [Licensed SMATV operators would be able to carry any channels licensed by the ITC or originating from states signatory to either or both of the proposed Council of Europe Convention on Transfrontier Television or the EC Directive on Broadcasting (assuming they come into effect). A system carrying channels falling outside either of these categories would need to be licensed separately by the ITC.]

The White Paper proposed that local operators should be liable to levy while they retained a local monopoly. We have, however, been persuaded on balance that it would be sensible not to introduce a new levy on local services. Whereas the White Paper proposed that broadcasting levies should mainly be based on advertising revenue, revenue from locally sold advertising appears at present unlikely to become a major source of finance for local services. Furthermore, we acknowledge the risk perceived by some commentators that the liability to levy might deter investment in a young industry, and we believe that this outweighs the benefits to the public purse of the modest amount of revenue which a levy might have yielded.

[Frequencies to be made available for MVDS]

[Non-EC ownership - if wider announcement on ownership restrictions ready by end of April]

As foreshadowed in the White Paper, we propose that all cable operators awarded franchises before the date of its publication (7 November 1988) should have the right to opt to become technology-neutral delivery operators under the proposed new framework. We have decided to propose that this right should

also be extended to eventually successful applicants for franchises applications for which had to be submitted by that date. In both cases the right will apply only to franchise holders who have been awarded a licence by the Cable Authority before it ceases to exist. Under our proposals operators in this category will, if they so choose, be licensed as local delivery operators as of right by the ITC when it is set up. As such they will be entitled to use MVDS to deliver services to the home, subject to the availability of spectrum. It will be for the ITC to decide what frequencies can be made available to any operators who take this option. It may not always be possible for it to make available sufficient frequencies to cover an operator's entire franchise area. Cable operators who obtain their franchises after this cut-off date and who are awarded a licence by the Cable Authority will, under our proposals, retain their status as operators licensed under the Cable and Broadcasting Act 1984 for the remainder of the terms of their licences. The ITC will discharge in relation to such licences the duties now undertaken by the Cable Authority.

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GOVERNMENT PROPOSALS ON LOCAL SERVICES

Franchising procedure

1. It is envisaged that the Independent Television Commission (ITC) would award technology-neutral local delivery franchises by competitive tender. The Government will be giving further thought to the precise nature of the competitive tender mechanism. Before their bids could be considered applicants would first have to pass certain pre-qualification tests. These tests, the details of which would be determined by the ITC, would be designed to weed out applicants who did not appear to have the financial or managerial resources to make good use of their franchise, or whose plans were technically unsound.

2. A franchise would give a local delivery operator the right to use a specified block of frequencies for 15 years. The LDO would be free to use any delivery technology he wished (in practice, cable or MVDS, or a mixture of the two). He would have the right to retail services as well as deliver them (subject to the qualification about telecommunication services noted in paragraph 8 below).

3. An LDO who was using MVDS would need a licence under the Wireless Telegraphy Act 1949. One who was laying a cable network in all or part of his franchise area would need a licence under the Telecommunications Act 1984. The award of a franchise would carry with it an understanding that any licences awarded under the 1984 Act would if necessary give the licensee telecommunications code powers. Circumstances warranting the grant of such powers would be:

- a. where the LDO was planning to lay a system capable of carrying interactive services; and

- b. any other cases where there was a proven need for such powers (eg where a part of the franchise area could not be reached off-air, and where it would be impracticable to lay cable without code powers).

4. It is envisaged that LDOs would not have coverage obligations. The ITC would, however, have the discretion to revoke franchises where the LDO was not making reasonable progress towards carrying out the plans included in his application for the franchise. LDOs would be subject to take over, provided that the new owners did not fall foul of the ownership restrictions (see paragraph 6 below).

5. It would be open to the ITC to advertise a second franchise for an area at any time but it would not have a duty to consider doing so at any specific point.

Ownership rules

6. The ownership rules for LDOs would be as proposed in paragraphs 6.48-6.53 of the White Paper (save for the separation of delivery and retailing).

Television and radio services

7. LDOs would be free to deliver and retail television and radio services. They would not have editorial responsibility for the content of services originating in the UK (which would be licensed by the ITC in their own right) or for services originating from states signatory to either or both of the proposed European instruments (assuming that they come into effect). They would, however, have responsibility for the content of any services falling outside these categories; and it would be a condition of their ITC licence to ensure as far as possible that any services of this sort which they carried complied with the consumer protection requirements. To the extent that LDOs originated any services themselves (eg local

channels) those services would need to be separately licensed in their own right by the ITC (or the Radio Authority in the case of sound-only services), like any other UK-originated service.

Telecommunication services

8. It is proposed that LDOs would also be able to deliver and retail telecommunication services on the basis proposed in the White Paper (paragraph 6.38). In particular, they would be able to retail as well as deliver such services only if they made their system equally available to others.

Non-LDO delivery systems

9. Not all local delivery systems would be subject to the franchising procedure. The procedure would come into play if:

- a. the delivery operator wished to use spectrum; or
- b. even if he was planning to use cable only, his proposed system fell outside the class of systems which would be eligible for a SMATV licence from DTI (see paragraph 10 below).

It would be unlawful to run a local delivery system without having either a DTI SMATV licence or an LDO franchise.

10. It is proposed that SMATV licences would be issued by the DTI under the Telecommunications Act 1984 in the following circumstances:

- a. systems covering single buildings or adjacent semidetached houses or pairs of houses in a terrace would be licensed automatically under the terms of a class licence;

- b. in areas already franchised, or where a franchise was being advertised, the LDO (or the eventually successful applicant) would be given the right of first refusal whenever an application for a SMATV licence was made. If he was unable to provide a service within a reasonable timescale then a SMATV licence would be granted to the original applicant. If a SMATV operator were licensed then it would be open to him subsequently to enter into a commercial arrangement with the LDO (eg to sell his system to the LDO, or to come to a joint venture agreement) if he so chose. Although no rigid rules would be laid down the expectation would be that DTI would not licence systems covering more than 1,000 dwellings;
- c. in areas which were not franchises, and where a franchise was not being or about to be advertised, SMATV licences would be granted. Again there would be a flexible limit of 1,000 homes. If an LDO franchise was later awarded for an area covering the SMATV system it would be open to the SMATV operator to enter into a commercial arrangement with the LDO if he so chose.

DTI would not envisage granting SMATV operators telecommunications code powers.

11. SMATV systems are likely in general to carry only channels licensed by the ITC or originating from a state bound by either or both of the European instruments. A system carrying a channel falling outside either of these categories would need to be licensed separately by the ITC. Operating in these circumstances without a licence would be unlawful. It is envisaged that the ITC licence would simply be a licence designed to ensure that the consumer protection requirements were met; it could not be withheld or withdrawn to regulate access to the market.

12. These would continue to be a licensing regime for restricted services (except to the extent that they were merely relaying channels licensed in their own right by the ITC) in order to apply content controls. Again it is envisaged that the ITC would not have the discretion to withhold or withdraw a licence in order to regulate access to the market.

Transitional arrangements

13. It is proposed that any operators awarded franchises by the publication date of the White Paper (7 November 1988), and any eventually successful applicants for franchises applications for which had to be submitted by that date, will have the right to opt to become LDOs. This option would apply only to franchise holders actually awarded licences by the Cable Authority before it is wound up.

Home Office
April 1989

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Ref. A089/902

PRIME MINISTER

Ministerial Group of Broadcasting Services (MISC 128)

As you know, MISC 128 is due to start work again on 20 April, when it will have the first of the three or four meetings that will be needed to take the final decisions on the forthcoming Broadcasting Bill, in the light of the response to the White Paper that was published last November. We shall submit a full brief for the first meeting for you to consider over next weekend, in the usual way.

2. In the meantime, I understand that the Home Secretary may wish to raise the following two procedural matters about MISC 128 when he has a talk with you next Tuesday.

Participation of Mr George Russell

3. First, the Home Secretary has suggested that he should be accompanied by Mr George Russell (present chairman of the IBA and chairman-designate of the Independent Television Commission) when MISC 128 considers the new competitive tender procedures for independent television franchises. Mr Russell is the architect of the IBA's proposals on this difficult matter, and the Home Secretary thinks it is important that MISC 128 should have the opportunity of probing the IBA's proposals in detail. If the Home Secretary makes this suggestion, I suggest that you say

that there is no objection to Mr Russell attending the relevant meeting to make a presentation, and answer questions, but that he should withdraw before Ministers reached their conclusions. (Mr Russell is, after all, a prominent player in the scene that MISC 128 has to regulate, and he has intimated that he might wish to resign if the Government's eventual decisions are not to his liking: there could be criticism if it became known that he took part in Ministers' taking of their decisions.) Such an arrangement should satisfy the Home Secretary.

Membership of the Group

4. Second, we understand that the Home Secretary may ask you to consider expanding the membership of the Group for the forthcoming second stage of its work. He may suggest that the Scottish Secretary should be asked to join, and also that permanent membership should be extended to the Foreign and Commonwealth Secretary and the Education Secretary (who were both invited to attend the Group's last meeting before the White Paper was submitted to the Cabinet).

5. I believe that there is, indeed, a good case for now including the Scottish Secretary, who has independently approached the Secretariat, through his officials. It is becoming clearer that there are special Scottish considerations in a number of broadcasting issues, including ownership, transmission, and franchising. In addition, the question of Gaelic broadcasting is assuming greater importance. Taken

overall, the Scottish Secretary's interest does not now look much less than that of the Welsh Secretary, who is already a member of the Group.

6. Expanding the Group beyond the addition of the Scottish Secretary would, however, significantly change its balance, and it is not clear to me that either the Foreign and Commonwealth Secretary or the Education Secretary will necessarily have the sort of continuing departmental interest that would justify permanent membership. I think that you would strike the right balance if you suggested that these two Ministers should be sent the papers of the Group, on the understanding that they could attend as necessary for the topics under discussion. You might wish to propose a similar arrangement in respect of the Northern Ireland Secretary, who has not made any approach to us, but who clearly has interests similar to those of the other territorial Ministers.

7. So I recommend that the Scottish Secretary should be added to the Group, whereas the Foreign Secretary, Education Secretary and Northern Ireland Secretary should receive papers but only be invited if matters affecting their departmental interest were at stake.

F.R.B.

ROBIN BUTLER

7 April 1989

PRIME MINISTER

MISC 128: MONITORING THE 25% INITIATIVE

Minutes attached.

On 9 February 1988 (MISC 128(88) 1st meeting) I presented a paper on the publication of information on contracts between broadcasters and independent producers.

I was asked to consult the independent producers' representatives (the Independent Access Steering Committee (IASC)) to determine if they would be content for specific and identifiable contractual information to be passed to the Office of Fair Trading so that they could monitor overall contract terms. They agreed.

I was also asked to consult the Director General of Fair Trading about the type and frequency of information he would need. We agreed that it would not be practicable to monitor the 1000+ separate contracts a year and the summary information which the broadcasters already had for their own internal monitoring purposes turned out to be unsuitable. There is no legal basis to compel the broadcasters to provide information and the BBC (but not the IBA) have made it clear they would not comply voluntarily.

In these circumstances the DG wishes to use the quarterly figures on hours commissioned from independent producers, with which the broadcasters have been providing the Home Office since last summer, as an indicator of the growth of the programme making market. This would be supplemented by quarterly meetings with the IASC (who have agreed) to discuss both general and specific cases where proper competition is involved. The Director General proposes to report on all this to me on a six-monthly basis.

dti

the department for Enterprise

I believe this degree of formal involvement by the Director General will, in itself, act as a spur to competition in this expanding market place. While the report will not be as rigorous in economic terms as we may have hoped, it does avoid the concerns about confidentiality of commercial information raised in the MISC 128 meeting. We are also tackling the monopsony problem through the expansion of channels proposed in our recent Broadcasting White Paper. And of course we are proposing a "minimum" of 25% of independently made programmes as a contractual obligation on Channel 3 licence holders. Thus by 1993 we will have ensured that the market place is a very different and genuinely competitive one.

In the interim though, I would welcome colleagues' agreement to accept the Director General's proposed six monthly reports and to review in two years time whether any further are needed.

I am copying this letter to Nigel Lawson, Douglas Hurd and other colleagues on MISC 128 as well as to Sir Robin Butler.



D Y
(Approved by the Secretary of State
6 April 1989 and signed in his absence)

DEPARTMENT OF TRADE AND INDUSTRY

the
Enterprise
Initiative



glo Fh *ECFO*
CONFIDENTIAL

K02156

SIR ROBIN BUTLER

cc Mr Gray
Mr Mundy

MINISTERIAL GROUP ON BROADCASTING SERVICES (MISC 128)

We are now coming up to the time when a few MISC 128 meetings will be needed to take final decisions on a number of important policy points in the light of responses to the Broadcasting White Paper. The first of these meetings has been fixed for 20 April, and we may need up to three more. The purpose of this minute is to seek instructions on a couple of handling points that the Home Secretary has asked his officials to raise with us, and which ought to be resolved in good time for the 20 April meeting.

2. The first point is the extent to which Mr George Russell might join in MISC 128 discussions. Mr Russell is the new chairman of the IBA and chairman-designate of the Independent Television Commission, and he is the main architect of the IBA's recent proposals for operating the auctioning of ITV franchises in a way that is intended to safeguard quality criteria. The Home Secretary is anxious to bring Mr Russell with him when MISC 128 discuss this extremely important topic, and I would have thought that there could be no objection to Mr Russell coming along to make a presentation on his ideas. But the Home Secretary would also like Mr Russell to stay on and participate in the Group's discussions, and that proposal is clearly more questionable.

3. The second point is on the membership of the Group. Mr Rifkind has separately made an approach to see if he could join the Group, and Mr Hurd supports this. The Scottish interests do, indeed, go quite wide. There are, for example, a set of issues surrounding the effect of the new transmission and franchise proposals on large sparsely populated areas (which currently benefit from transmission systems that are financed on

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a national basis) and the new ownership rules may have particular importance for Scotland (i.e. would it be acceptable for all the independent Scottish services to be owned by Mr Murdoch or Mr Maxwell?) Also, the question of broadcasting in Gaelic is now emerging as a more politically sensitive issue. The Welsh Secretary has been a member of the Group from the outset, because of the special place of Welsh language broadcasting, and I think that a strong case is now forming for the Scottish Secretary also to be a member.

4. If both the Scottish and Welsh Secretaries are on the Group, however, that might raise a presumption that the Northern Ireland Secretary should also be included, as he will share at least some of the Scottish Secretary's concerns. On the other hand, we have not had any enquiries from Mr King's office. Perhaps the best compromise would be to add him to the circulation list for papers.

5. Additionally, you may remember that Sir Geoffrey Howe and Mr Baker were invited to join the last meeting of MISC 128, before the draft White Paper was submitted to the Cabinet. I understand that the Home Secretary has expressed the hope that both these Ministers will now remain on the Group. There is clearly a natural case for this, but if both these Ministers plus Mr Rifkind were added to the Group, then I think that its balance would be significantly changed in a direction that one might characterise as putting somewhat less emphasis on market forces and rather more on the preservation of some of the less definable characteristics of British broadcasting. If a choice were to be made between Sir Geoffrey Howe and Mr Baker, then I think that Mr Baker has the stronger departmental interest. The educational content of broadcasting is one of the major continuing 'public service' issues, whilst the FCO concerns were more specific ones about the international regulation of satellite broadcasting etc.

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6. If you agree, I suggest that it might be useful if we had a word about these points in the course of your routine Thursday afternoon meeting this week. One possibility we might then discuss would be to leave these matters to be finally settled between the Home Secretary and the Prime Minister who are, I understand, having a bilateral early next week. In any event, however, I think we ought to put a short note to the Prime Minister over the weekend.

7. For what it is worth, my own recommendation would be

i. Mr Russell to be invited to accompany the Home Secretary to make a presentation of his proposals, but not to stay for substantive discussion.

ii. The Scottish Secretary and the Education Secretary to become members of the Group, but the Foreign and Commonwealth Secretary and the Northern Ireland Secretary only to receive papers and attend when necessary.

AIL

A J LANGDON

5 April 1989

CONFIDENTIAL

SUBJECT cc Mante



file DS2APZ
bc = BG
MLB

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 April 1989

BROADCASTING

Mr John Wheeler MP came to see the Prime Minister today, in his capacity as Chairman of the Select Committee, to discuss the proposed broadcasting reforms. He spoke very much in the terms already set out in his letter to the Prime Minister of 17 February, for which you had kindly provided briefing with your letter of 6 March to Andy Bearpark. Mr Wheeler said that the Select Committee had today published the last of their planned detailed reports, covering the position of Channel Four. He felt it was essential to "fill a pot hole" in the White Paper by identifying a practical method of preserving the Channel Four remit. He believed that the Select Committee's proposal did just that and, although he did not want to take time at the meeting to elaborate the idea, he commended it to the Government.

Continuing, Mr Wheeler said he wished to concentrate his comments on the position of the BBC. He strongly wanted to see the BBC become more directly accountable to consumers, more responsible and more efficient, and he supported the longer term objective of shifting its financing over to subscription. He was optimistic that this process could be achieved under the present leadership, and there were already encouraging signs. However, the timing of changes was crucial, and it would be a mistake to move too quickly in some directions. He felt that the argument of accountability had to be won by stealth. And it was important to bear in mind that the Charter had to be reviewed in any event by 1996; that could be the opportunity to introduce substantial changes if, by that time, the consumer had been gradually prepared for a different approach, and the BBC had been given the right incentives and encouragement to go out and market their services.

Against that general background, he was concerned about the White Paper proposal to deprive the BBC of the night hours on one of the channels; it was too soon to make this move. This and other moves towards subscription should only be made when technology had been further developed, the BBC was more fully geared up and it was clearer how the market was developing. On this last point, his own view was that

fm

satellite television would face major competition from the video industry, which might offer substantial cost advantages to consumers compared with subscription based satellite services; this was a particular reason for caution before pushing the BBC too quickly towards subscription.

Mr Wheeler also pressed his argument that the required processes of change within the BBC would be encouraged if non-payment of the licence fee was changed from the criminal offence to a civil matter. On this point, the Prime Minister responded to question the argument in Mr Wheeler's letter that the licence fee was good value for money; it had to be remembered that the fee was a form of compulsory levy. She recognised the argument in favour of ending the criminal offence, but stressed that there were practical difficulties to be overcome in coping with non-payment if this became purely a civil matter; it was not possible, for example, as it was with some utilities simply to cut off service to non-payers. Mr Wheeler responded that civil debt collection procedures would be effective, and would help to improve the accountability of the BBC.

In conclusion, the Prime Minister thanked Mr Wheeler for coming to see her to explain his views.

I am copying this letter to Nigel Thornton (Department of Trade and Industry) and Anthony Langdon (Cabinet Office).

PAUL GRAY

Miss Catherine Bannister
Home Office



10 DOWNING STREET

Prime Minister

You saw these papers over
the weekend, but may wish
to have a final glance
at them this evening.

REC 6

3/4

From: THE PRIVATE SECRETARY

ccp



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

*Top copy
amended.*

31 March 1989

Plcc 3/4

Dear Mr Morris,

MISC 128: IMPLEMENTING THE BROADCASTING
WHITE PAPER

with PK?

We have noticed a slight typing error in the Home Secretary's minute to the Prime Minister dated 28 March 1989. The word 'four' on page 5, paragraph 12, line 3, should read 'few' and I would be grateful if you could make the necessary amendment.

I am copying this note to recipients of the original minute.

*Yours sincerely
Celia Boyle*

CELIA BOYLE
Assistant Private Secretary

Dominic Morris, Esq

PRIME MINISTER

MEETING WITH JOHN WHEELER ON 4 APRIL

You are meeting John Wheeler after Question time on Tuesday. He wants to discuss various aspects of the broadcasting proposals.

You may like to have a first look on Sunday at various papers:

Flag A - John Wheeler's letter setting out points he wants to discuss.

Flag B - Home Office briefing on those points.

Flag C - A further minute from the Home Secretary providing an overview of the position reached on the White Paper consultation exercise. Further papers and briefing will be available on all this before the next MISC 128 meeting on 20 April, but you may like to have a quick glance at this scene setting minute before you see John Wheeler.

PLG.

PAUL GRAY
31 March 1989

EL3DLB

ccp



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

31 March 1989

Dear Paul,

Top copy needed.

Rec 31/3

PRIME MINISTER'S MEETING WITH MR JOHN WHEELER, MP
4 APRIL

at flap.

There is one small amendment to make to the briefing which we originally supplied for this meeting at the beginning of March. In the section dealing with "maintenance of licence fee in real terms", the words "are to be" in line 2 of paragraph 3 of the background note should be replaced by "were".

I should be grateful if you could make this minor change to the briefing for the Prime Minister.

Yours sincerely,
P J C Mawer

P J C MAWER

Paul Gray, Esq
Private Secretary
10 Downing Street

Broadcasting Part 7
FINANCE.

31.11



CCM
CCP

PRIME MINISTER

MISC 128: IMPLEMENTING THE BROADCASTING WHITE PAPER

BACKGROUND

You have agreed to chair a series of further meetings of MISC 128, starting on 20 April. Their main purpose will be to consider whether we should develop or modify any of the proposals in our Broadcasting White Paper in the light of the comments on it. We have received over 3,000 responses. A selective summary of the major points made by some of the key interests is at Annex A. The White Paper has prompted a wide-ranging debate. This has itself been helpful in making broadcasters face up to what a more competitive future will mean for them.

2. The purpose of this minute is to set the scene for our consideration of specific topics. I envisage that these will include:

the future funding and structure of Channel 4;

the quality threshold, competitive tender and the levy;

ownership;

the night hours;

transmission; and

the regime for locally delivered cable/MVDS services (on which we are committed to an announcement by the end of April).

I will be circulating proposals on these subjects separately. I thought you might like to have this scene-setting minute before you meet the Chairman of the Home Affairs Committee on 4 April: briefing has been provided separately for that meeting.

Increased Competition

3. The White Paper emphasised that broadcasting was changing fast, and that technology was opening up the prospect of much wider competition and choice. That remains true. But the advent of the Sky transmissions from the Astra satellite has vividly brought home to many people the reality of a potentially dramatic expansion of broadcasting. In the coming months the public will be presented with a massive advertising campaign by BSB in the run up to its launch in September.

4. Extra competition and choice are therefore now more tangible than when we published the White Paper. They are also prospectively more extensive. The IBA have now advertised the United Kingdom's fourth and fifth DBS channels. There are plans for a second Astra satellite, opening up the prospect that up to 32 satellite television channels will be receivable on a single dish. There are also plans for further Eutelsat satellites, delivering up to a further 42 channels from different orbital positions. Under our proposals services which do not use UK broadcasting frequencies will be allowed to develop freely (although if they have an uplink from the UK they will be brought under direct consumer protection controls on matters such as taste and decency). Poll evidence suggests that the prospect of wider choice through new satellite channels is popular with viewers. As one would expect, there are varying predictions about how far these ventures will succeed, and how much they will eat into the audience share of the terrestrial broadcasters. A number of the satellite channels will be subscription-funded. A number will be thematic channels targeted at particular interests. There has also been a recent upsurge of interest in cable.

5. Some of the existing players have become more anxious as the scale and reality of the prospective competition have become clearer. Existing broadcasting interests have naturally sought to rally support. Several senior backbenchers and peers have been vocal on their behalf. Lord Buxton's attack in the Lords and in correspondence on the form of competitive tender proposed in the White Paper is an example. Some interests have also argued that the cumulative effect of all the changes proposed for ITV in the White Paper - competitive tendering requiring the highest bidder to be selected in the second stage, a revenue levy, separation of Channel 4 from ITV, removal of the night hours from Channel 3 and Channel 5, possible changes in the Channel 3 map, moving the transmission system into the private sector - will be too destabilising at a time of rapid change and increased competition for advertising revenue. The advertisers and the independent producers, while acknowledging that much of the White Paper is good news for them, share the worries about the effect of some of these proposals in their present form.

6. We must expect interests such as the ITV companies to seek to defend their positions, although it is also clear from their individual responses, and the ITVA's, that they have come a long way in accepting the need to be more efficient in a much more competitive broadcasting environment. The MMC investigation has also shown that the wind of change has been blowing through the ITV system in recent months.

Need for Flexibility on Detail of Proposals

7. The overall response to the White Paper should not lead us to abandon its main pillars. But there are some areas where there are sound reasons for us to be ready to look again at the detail of the proposals in the White Paper. The main considerations are these:

(a) Implications of Increased Competition

8. Competition under the new regime now seems likely to be much more acute than it did when the Peacock Report, and to a lesser extent the White Paper itself, were written. Technical opportunities for new services have been around for some time. The significant point to have emerged sharply over the past few months is the depth of the pockets, and the determination,

of the new players - News International, W H Smith, Bond, Pearson, Maxwell among them - who are taking up these opportunities. The fact that there will be even more outlets for new players than previously envisaged suggests that we might look again at some of the more heavily criticised proposals in the White Paper for creating such outlets, such as the proposed separate night hours licences for Channel 3 and Channel 5. Doubts have been expressed by City analysts about their viability in such a competitive environment.

(b) Quality

9. The biggest single theme of the debate has been the need to promote high programme quality and extra choice which is real, not bogus. This was the dominant message in the debates in both the Commons and the Lords. It is also the chief concern of the letters we are receiving from individual viewers and listeners. The emphasis which we are now putting in our general political philosophy on the quality of life will also encourage the concern with quality in broadcasting. Your recent speech to the Central Council at Scarborough is a case in point. This points to a need to look carefully at the adequacy of the safeguards proposed in the White Paper for quality programming on Channel 3 and Channel 5, and at how Channel 4's remit can most effectively be safeguarded. I remain persuaded that some form of competitive tender will be a marked improvement over present franchise allocation arrangements. But we need to look hard at the interaction of quality tests and realistic and soundly based financial bids in the competitive tender process. The simple "highest bidder must win" variant proposed in the White Paper can easily be presented as providing an economic disincentive to quality, and has found no committed supporters among those commenting. It has also been criticised in a widely noticed response from six members of the Peacock Committee.

(c) Home Affairs Committee

10. John Wheeler's Home Affairs Committee has emerged as a significant voice in the debate. They have supported much of the White Paper, which in turn reflected a good deal of their report published last June. But they have, as you know, sharply criticised the proposal to take away one set of

the BBC's night hours as being inconsistent with our wish to nudge the BBC towards subscription and to reduce reliance on the licence fee. Many independent responses to the White Paper have echoed this point. The Committee have also concluded, as a result of their latest study, that the Channel 4 remit - the pivotal quality safeguard for the independent sector - cannot be effectively guaranteed except along the lines proposed in the second option in paragraph 6.25 in the White Paper.

(d) Bill Handling

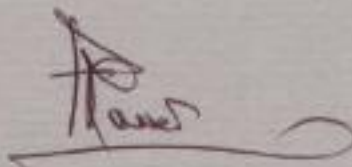
11. We now need to consider seriously the handling of the Bill. It will be long (perhaps 200 clauses) and controversial. We will have to show that we have taken some account of comments on the White Paper in implementing its detail in legislation if we are not to face severe problems in both the Commons and the Lords. The White Paper has already set off some potentially formidable campaigns on behalf of particular interests such as Gaelic broadcasters; religious, children's, arts and social action programmes; and supporters of BBC network radio. There is also a wider campaign, which we are seeking to counter, about the implications of the White Paper proposals for broadcasting in Scotland. Mr Renton will answer a debate at the Party Conference in Scotland in May.

12. There is a strong view, not only in Scotland but also in the South-West and North-East of England, that the existing number of franchises should not be disturbed for the first ^{few} ~~four~~ years of the new regime; any reduction in the number of franchises will certainly be very politically sensitive. Tactically, we will need some room for manoeuvre in responding to such campaigns, and more general concerns about quality and the management of change, without conceding points inimical to the White Paper's basic philosophy. We also need, I believe, to show some movement on local cable/MVDS franchises, where our proposals have been much misunderstood and criticised by cable interests, and on ownership, where many, while welcoming our desire to maintain diversity of broadcasting ownership, would like to see still tighter and more extensive restrictions.

CONCLUSION

The White Paper proposals have emerged from the consultation process in good shape overall. There are valid reasons for looking again at some of the detail. In this we are, I think, helped by a comprehensive response from the IBA which clearly shows the beneficial influence of the new Chairman, George Russell, which stresses objectives entirely consistent with those of the White Paper, and which incorporates much fresh, and in some cases independent, thinking on specific points.

13. I am copying this minute to MISC 128 colleagues and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'Hans', with a long, sweeping underline that extends to the right.

APPROVED BY THE HOME SECRETARY
AND SIGNED IN HIS ABSENCE

28.3.1989.

BROADCASTING WHITE PAPER: KEY RESPONSES

IBA

Welcomes proposed framework for expansion of commercially funded broadcasting. Must be structured so that more choice does not mean less quality.

2. Advantage in retaining present Channel 3 regions post-1992. Welcomes proposal that ITC should decide this.

3. A network on Channel 3 is essential and ITC should have power to require one.

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4. Channel 4's remit best sustained if it becomes a non-profit making subsidiary of the ITC, selling its advertising separately, but with a revenue safeguard based on a set percentage of terrestrial net advertising revenue (NAR).

5. Proposes tendering arrangements based on clearly specified quality requirements, a fixed licence payment set with City advice, a variable bid expressed as a percentage of NAR, and quality of money assessments based on soundness of business plans.

6. Recommends three year moratorium on hostile takeovers.

7. More competitive transmission system desirable. IBA's and BBC's national transmission operations should be privatised separately.

ITV ASSOCIATION

Welcomes White Paper in giving positive lead to the development of television in the next decade.

2. Questions "highest bidder wins" element in competitive tender proposals. Offers four preferable options for tendering, all of which offer ITC some discretion to choose between competing bids having regard to quality and avoid lump sum bids.
3. With bids in the form of annual payments, levy should be abolished.
4. Current complementary relationship between Channel 3 and Channel 4 should be retained.
5. Channel 3 regional franchisees should be allowed to retain their night hours.
6. Three year moratorium on hostile takeovers.

BBC

Welcomes White Paper and especially confirmation of its special role.

2. BBC will supplement licence fee by selling programmes, providing data services and building on subscription experiment. Subscription proposals include a skills initiative geared to 1992 and a BBC nature club.
3. In order to build up subscription and retain scheduling control to provide valued overnight services such as election, sports and musical event coverage, BBC wishes to retain control of both channels during night hours.
4. BBC will continue to increase efficiency and reduce overheads.
5. Next licence fee decisions (for April 1991) should be based on independent assessments of income achievable from subscription.

SIX MEMBERS OF PEACOCK COMMITTEE

Essential that ITC should have discretion not to accept highest bid in competitive tender.

2. Premature reduction in licence fee will have damaging effects on BBC TV and radio. BBC must have adequate funding beyond 1991.
3. Government should legislate to make peritelevision sockets mandatory.

INCORPORATED SOCIETY OF BRITISH ADVERTISERS (ISBA)

A revenue levy after 1993 would constitute a tax on advertising and should be withdrawn.

2. Advertisers would regret it if the high cost of acquiring a Channel 3 franchise discouraged licensees from providing a high quality service.
3. Channel 4 should become a private sector company keeping its existing programme remit.
4. Channel 5 should be launched before 1993 and should be divided not daytime/night time but weekday/weekend.

INDEPENDENT PROGRAMME PRODUCERS' ASSOCIATION (IPPA)

If the BBC is to develop new programme services and subscription it should retain both sets of night hours.

2. Monitoring of implementation of the 25% independent productions target should be entrusted to an independent evaluator.
3. The Channel 3/Channel 4 link should be severed. Channel 4 cannot make its way unassisted in the market place. It should become an independent trust with a guaranteed budget.

4. Channel 5 should have its headquarters outside London.
5. The Government should help the formation of a national network of training organisations.

DELOITTE, HASKINS AND SELLS

ITC should select contender who offers cost-effective programming at the highest standard, even if he is not the highest bidder.

2. Quality hurdle for Channel 3 should be higher.
3. Proposed delivery/retailing distinction for local services should be abandoned.
4. Separate regional Channel 3 night hours licences unlikely to be viable.
5. Channel 5 should not be split up by hours of day.

CAMPAIGN FOR QUALITY TV

Positive programme requirements should be expanded to include high quality current affairs, arts, religious, drama, documentary and children's programmes, and a network system.

2. ITC should consider applicants' financial commitment to programme proposals, as well as financial bids.
3. Channel 4 remit needs to be supported by continuing cross-promotion and complementary scheduling.

CARLTON COMMUNICATIONS

National newspaper interests in Channel 3 should be restricted.

2. Tender bids should take form of percentage of NAR. If ITC not satisfied about financial viability of business plan of highest bidder, should award licence to alternative applicant.
3. Channel 5 should not be split up by time.
4. Does not favour any moratorium on takeovers.
5. ITC should make known its decisions on Channel 3/Channel 5 clock and map as early as possible.

BROADCASTING: MARR PT 7.



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bc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

MR. LANGDON
CABINET OFFICE

cc Mr Wilson
Mr Mundy

BROADCASTING POLICY: MISC 128

Many thanks for your minute of today's date. I have noted the plans for the meeting on 20 April and possible subsequent meetings. If the aim is to clear in correspondence the statement on local services, I think it would be helpful if the Home Secretary could circulate his draft well in advance of 20 April.

PAUL GRAY
22 March 1989

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MR GRAY

cc Mr Wilson
Mr Mundy

BROADCASTING POLICY (MISC 128)

Mr Hyde's official group (MISC 129) met yesterday to consider a paper on local television services, and to take stock of the work that needed to be done in MISC 128 before the summer recess to enable the Broadcasting Bill to be prepared on time.

2. The decisions on local services are needed first simply because the White Paper contained a promise (paragraph 6.32) that the Government would announce its firm intentions on this topic by the end of April. While the local service issues are technically complex, however, they are by no means the most politically significant decisions that need to be taken.

3. The official group therefore agreed that the best way forward would be for the Home Secretary to aim to circulate a draft statement on local services in time for discussion at the MISC 128 meeting on 20 April if that was requested, but with the hope of clearing this item in correspondence. The Home Secretary would also circulate a general position paper, taking stock of the response to the White Paper; a paper on Channel 4; and a paper on ownership requirements for ITV franchises. I think that the meeting agreed with Brian Griffiths' comment that the Prime Minister might well not want to take decisions on the latter points until she could see them in context, but a preliminary discussion of these meaty topics would almost certainly provide MISC 128 with the most useful re-entry.

4. As things are shaping up, therefore, we may have a fairly general MISC 128 discussion on 20 April, followed by about three

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meetings on specific issues before the end of June. But if the Home Secretary's statement on local services is not agreed in correspondence it may take up most of the first meeting, since some of the technical aspects are quite intractable.

H Belcher

pp

A J LANGDON

22 March 1989

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10 DOWNING STREET

From the Principal Private Secretary

17 March 1989

BROADCASTING WHITE PAPER
LORD BUXTON'S CONCERNS

The Prime Minister has seen your letter to me of 15 March and was grateful for the explanation of the way in which Lord Buxton's concerns can be met.

Andrew Turnbull

Miss Catherine Bannister
Home Office

CONFIDENTIAL

14K



Prime Minister
It appears there are
ways round Lord Buxton's
problem.

SEP

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWH 9AT

AT 1613

15 March 1989

Dear Andrew

mt

at floor

Philip Mawer wrote to you on 13 February about the point raised by Lord Buxton with the Prime Minister on the Broadcasting White Paper's proposal to allocate independent television contracts by competitive tender.

We asked the Department of Trade & Industry to make enquiries of the Stock Exchange as a matter of urgency. A copy of the letter from the Stock Exchange is attached for information. In summary:

- (i) if the bid is a revenue bid (expressed in yearly amounts and shown in the profit and loss accounts) it would fall outside the Stock Exchange requirements for shareholders to be informed;
- (ii) if the bid is a capital bid (i.e. a fixed sum) then
 - (a) if it were less than 15% of the company's assets or net profits it would not fall within the terms of a Class 1 bid;
 - (b) if it were 15% or more but less than 25% of the company's assets or net profits it would be a Class 1 bid, but the requirement to notify shareholders would apply only if the bid were successful. In other words, the bid could be confidential, and declared to shareholders only if it were successful;
 - (c) if it were 25% or more of the company's assets or net profits it would be a Major Class 1 bid requiring shareholders to be informed. But there are other ways around this:
 - (i) the Stock Exchange, though unlikely to grant a general waiver, might be willing to grant a specific waiver on request. There is a precedent for doing this on the grounds that shareholders' interests would otherwise be damaged;

- (ii) the company could seek shareholders' approval in advance to waive their right to an EGM to allow a bid to be made in confidence.

Thus the basic message from the Stock Exchange is that the problem raised by Lord Buxton is not insuperable; but we will need to bear in mind the Stock Exchange rules in further work on the tender process, and to consult further with them at an appropriate stage.

Yours sincerely
Catherine Bannister

MISS C J BANNISTER

Andrew Turnbull, Esq.

G. H. DOUGLAS MANN
EXECUTIVE DIRECTOR



ANNEX C

P.O. Box 119
THE STOCK EXCHANGE
LONDON EC2P 2RT
TELEPHONE 40 698 2355

H. FRYER
DIRECTOR OF QUOTATIONS

Our Ref: Q/RAGM1.54/AJ

6th March 1989

PRIVATE & CONFIDENTIAL

L. B. Green, Esq.,
Financial Services Division,
Department of Trade and Industry,
10-18 Victoria Street,
London, SW1H 0NN.

Dear Sirs,

Thank you for your letter of 10th February 1989 addressed to Keith Walmsley which has been passed to me for attention. We have discussed within the Quotations Department the problem raised in your letter and I set out below some initial views on the matter.

In the first place, it is not immediately clear that the proposed bids would be subject to the provisions of Section 6 of the "Admission of Securities to Listing". That section covers transactions of a capital nature and specifically excludes transactions of a revenue nature and transactions by investment dealing companies in the ordinary course of their business. Prima facie, therefore, the proposed tenders will only be caught by Section 6 if they involve the payment of amounts which will be treated as capital payments. However, on the assumption that they do involve capital transactions, their treatment under Section 6 would vary according to the size of the transactions.

If a transaction is deemed to be Class I or smaller, the bidding listed company will be required to publish an announcement or send a circular to shareholders in the event that its bid is accepted. There would, however, be no breach of commercial confidentiality since there is no requirement to publish any information until the outcome of the bid is known. If the transaction is Major Class I, the successful bidding company will not only be required to send a circular to shareholders when it knows that its bid has been accepted but will also normally be required to make its bid subject to prior shareholder approval. Obviously the requirement to make a bid subject to prior shareholder approval - and thus to tender conditionally - may place the bidder at a disadvantage to other bidders not subject to the same restriction and might even make the terms of a bid

Continued/...

- 2 -

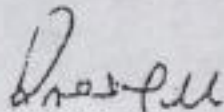
unacceptable to the ITC. To address the problem, I do not think it would be desirable to give a blanket waiver in advance of the relevant listing rules. In similar situations, such as those which frequently arise in the oil and gas industry, companies may apply to the Committee on Quotations for a waiver of the requirement for prior shareholder approval and such applications will normally be sympathetically received if the applicant can demonstrate that the grant of a waiver will be significantly to shareholders' advantage.

In this particular case, an application might well be viewed more sympathetically if a company is simply bidding to retain an existing franchise and, conversely, less so if it has no previous experience as a television company. Any application would probably be assisted if the ITC were to make known that it would not be prepared to accept conditional bids at all.

If the above procedures are for some reason not acceptable, one further possibility might be for a company to announce its intention to bid to its shareholders and ask them, in general meeting, to formally waive, without knowing the proposed terms of the bid, the requirement for further shareholder approval. It would appear unlikely that any company could show that it was seriously disadvantaged simply by having to publish the fact that it intended to bid.

There are, therefore, a number of potential solutions to the problem. If you do have any queries or require further information, please do not hesitate to contact me. Finally, I should perhaps mention that the treatment outlined above relates specifically to listed companies. If any USM company chose to make a bid, it would be accorded similar treatment, although the class test thresholds would differ somewhat.

Yours faithfully,



R.A.G. Miller
Secretary to the Committee

BROADCASTING: BBC France
PT 7





me pm

cc MLB

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 March 1989

Thank you for your letter of 6 March enclosing briefing for the Prime Minister's meeting with John Wheeler MP on 7 March. I fear that I was grievously misled. The meeting is not until 4 April. Could you please let me know on the 3rd if you wish to amend the briefing in any way.

P. A. Bearpark

Miss Catherine Bannister,
Home Office.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

6 March 1989

Dear Andy

Thank you for your letter of 22 February requesting briefing for the Prime Minister's meeting with John Wheeler MP on 7 March to discuss aspects of broadcasting policy.

... I attach briefing to cover the four topics mentioned in Mr Wheeler's letter, namely:

- (a) the use by the BBC of the night hours to develop subscription services;
- (b) the maintenance of the licence fee in real terms for the next few years;
- (c) transfer to the BBC of responsibility for administration of the licence fee system;
- (d) decriminalisation of licence fee evasion.

Yours
Catherine

MISS C J BANNISTER

P A Bearpark, Esq
Private Secretary
10 Downing Street

BBC NIGHT HOURS

Line to take

Understand your reasons for thinking that the BBC should be allowed to retain both sets of night hours. Peacock in fact recommended that they should lose both sets. The White Paper proposal to remove one set only will give the BBC an opportunity to develop subscription services at night, while at the same time providing an opportunity for a new operator to enter the field. We will, however, consider your views carefully, along with any fresh arguments from the BBC.

Background

2. The White Paper proposed that one set of night hours should be removed from the BBC and allocated by the ITC by competitive tender. (The White Paper did not define the night hours, but referred to the definition proposed by Peacock ie 1-6 am). The objective was to create a further opportunity for a new operator to enter the field.

3. The BBC have argued that they should be allowed to retain both sets of night hours, on the basis that this would give them greater scope to develop subscription services. If the BBC were to retain both sets they would propose to use one set for specialised services aimed at professional and occupational groups provided in conjunction with commercial partners (such as the experimental service for doctors which started recently), and the other set for entertainment services drawing on their programme archives (eg a Nature Club drawing on the BBC's archive of nature programmes). In both cases the services would be downloaded onto VCRs. They have argued that the removal of one set of hours would greatly reduce the scope for subscription services. Some of the time on the remaining set of night hours would have to be reserved

for overnight coverage of events (eg Olympics, elections). As some of these events are not foreseeable far in advance the commercial value of the remaining hours would be lessened by the fact that they might become unavailable at short notice.

<wk>J/Nt/BBC/Nt/Hrs

MAINTENANCE OF LICENCE FEE IN REAL TERMS

Line to Take

1. The licence fee will in fact be index linked to the RPI until 1991. This has given the BBC a more secure basis for their funding than previously, helping them to budget sensibly while giving them an incentive to increase their efficiency.
2. But as we have said in the White Paper, from 1991 we intend to take into account the BBC's capacity to generate money from subscription services when settling licence fee increases. I believe this is the sensible thing to do, both encouraging the BBC to maximise its earning potential and ensuring that the licence payer benefits from the BBC's success in doing so.

Background

1. The BBC licence fee is being indexed to the RPI between 1987 and 1991. This is intended to put a double squeeze on the BBC's finances. First, because costs in the broadcasting industry have traditionally tended to rise by more than the RPI. Secondly, because the BBC had previously planned to spend more than the increase in 1987 - the base year for index linking - would have allowed them to do so. At the same time, it benefits the BBC by giving them a secure basis on which to budget; and the licence payer by stimulating the BBC to reduce their costs and increase efficiency.
2. From 1991, the Broadcasting White Paper proposes that the licence fee should be increased by less than the RPI in a way which takes account of the BBC's capacity to raise money from subscription and encourages progress in that direction. The White Paper looks forward to the eventual replacement of the licence fee, but says that the timing will depend on experience gained of the impetus and effects of BBC and other new subscription services. A wide range of commentators on the White Paper have expressed concern about the long-term effect on UK broadcasting standards of changes in the way the BBC is funded.
3. As announced by the Home Secretary last October, under the present indexation arrangement, the licence fees ~~are to be~~ ^{were} increased on 1 April from £62.50 to £66 (colour) and from £21 to £22 (monochrome).

Line to Take

I fully agree with what you say. The White Paper on broadcasting sets out our intention to transfer this responsibility to the BBC through the Broadcasting Bill. This was, as you know, a Peacock Committee recommendation. I know that the BBC are keen to take on this task. In their response to the White Paper, they have stated their wish to develop the present collection system, including the direct debit instalment scheme to be introduced this year, and to consider other forms of easy payment. They are also considering the practicalities of marketing and collecting subscription payments.

2. The BBC's aim is to maximise convenience and benefit to the licence payer. Taking on this responsibility will give them a good base from which to become more directly accountable to their customers. I welcome this positive approach by the BBC.

Background

1. At present the Home Office is responsible for the administration of the television licence fee system. The Peacock Committee recommended that the BBC should take over this responsibility and this has been agreed. The White Paper on broadcasting sets out the Government's intention to make the necessary legislative changes, which will be included in the forthcoming Broadcasting Bill. On present plans, the transfer would take place about April 1991.

2. The BBC will then become responsible for all aspects of licence fee administration. The Home Secretary will continue to set the level of the fee, the licence conditions, the types of licences which may be issued, and the payment of the BBC grant.

3. This will save some central Government costs and staff. And the BBC are keen to take the opportunity to develop the present collection system, including the direct debit instalment scheme to be introduced later this year, in order to maximise the convenience and benefit to the licence payer. The BBC have commissioned a marketing study to see what other forms of easy payment may be desirable. And they are also considering the practicalities of marketing and collecting the payments for add-on subscription services.

DECRIMINALISATION OF LICENCE FEE EVASION

Line to take

I understand the reasoning behind this recommendation. We do of course need to consider the practical implications for broadcasting finance, and in particular to look at how the utilities are able to enforce payment. We will let you know as soon as we have reached a decision.

BACKGROUND

2. The Home Affairs Select Committee report on broadcasting recommended, amongst other things, that evasion of the licence fee should become a civil rather than a criminal offence. Mr Wheeler argues that the obligation to pay the licence fee should be no different from the requirement of consumers to pay other public charges such as water rates and charges for other public utility services.

3. In considering this recommendation, we have been in consultation with the Gas, Electricity and Water Industries and British Telecom about their debt collection procedures and how they enforce payment. There are some difficult practical issues: unlike the utilities the BBC are not able to cut off the service to non-payers; the evasion rate is already higher than that of the utilities and would increase; lack of incentive under civil liability to pay up quickly, with cash flow consequences; generally the debts would be below the level at which the courts could award costs; difficulties in enforcing civil court judgements.

4. After consideration of these issues, the Home Secretary intends to report to MISC 128.

sbh/licfee/evas/2mar

John WHEELER MP
3/3



File
DM

cc MCB

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

Ack/22 February 1989

I enclose a letter dated 17 February to the Prime Minister from John Wheeler MP concerning the matters he wishes to discuss with her at the meeting which is planned for 7 March.

I should be grateful if you would let me have a suitable brief a couple of days before.

P. A. BEARPARK

P J C Mawer Esq
Home Office

CC



COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA

01 - 219 5468 (Enquiries)

01 - 219 (Direct Line)

01 - 219 6422 (Fax Group 3)

HOME AFFAIRS COMMITTEE

202

17 February 1989

Mr Prime Minister,

I am grateful to Mark Lennox-Boyd for making arrangements for me to call on you to discuss aspects of Broadcasting policy, with particular reference to the BBC.

As you will know, my Select Committee made a thorough examination of the future of Broadcasting and our Report was cited in many places in the White Paper, "Broadcasting in the 90s". I mentioned some of my concerns in my speech in the recent debate on the White Paper.

Part of the intention of my Committee's comments on the BBC was to make the BBC more efficient in maximising its opportunities to earn money in the market place and more directly accountable to the public. I recognise the scope for the BBC to develop its own sources of income in addition to the licence fee, including thorough exploitation of the subscription services in the night hours. The BBC has begun developing these services which must be successful if the subscription income is to grow to a size large enough eventually to replace the licence fee even in part.

The main case for removing the night hours from one of the BBC's channels to put them out to commercial use has been to offer more competition in advertising. Under the Government's proposals, Channels 3, 4 and 5, not to mention 5 DBS channels and those services on Astra such as Sky, will provide a welter of advertising opportunities in an uncertain market. I notice an announcement by LWT reported only on Wednesday that the current ITV night services are not yet economic and so programming must change. Given the number of opportunities available, I contend that it is not necessary to restrict the BBC in this way to establish the competition which it is Government policy (which I support) to achieve.

In my speech, I was also concerned that the BBC's income from the licence fee should be sustained in real terms for the next few years to enable them to set standards of quality in production while new services are developing. This is not to defend the occasional lapses of editorial judgement inevitable in any broadcasting (or press) organisation although in the BBC's case Duke Hussey and Michael Checkland have achieved a measure of control over these problems. What is at stake is the ability of a sector of British television to make the kind of drama and series for which British television is world renowned.

The licence fee is in any case good value for money, costing some £5.50 per month as against approximately £15 per month rental for a video cassette recorder and £18.50 for the average cable subscription. In the interim, before it is possible to go to subscription finance, the security of the licence fee, now currently better managed than for some years past, allows the BBC to operate on a lower budget than in an uncertain climate and to persevere with initially unpopular programmes where the independent sector would be unable to wait for them to establish an audience.

I also want to see the BBC able to maximise its income from the licence fee by being responsible for its collection. The present arrangement provides no incentive to the BBC to market its services, being removed from direct contact from licence payers. The Home Office is currently responsible for collecting licence fees. At one and the same time, the BBC could establish a basis from which it could ultimately develop subscription, rather than licensing, finance, and be in a directly accountable relationship with its customers.

Coincidentally with the change from Home Office to BBC collection of the licence fee, I recommended that non-payment should be a civil, rather than a criminal matter.

This recommendation is based on the premise that it is desirable in principle that a wrong, which need not be so treated, should not be dealt with as a criminal offence. The current arrangement has the consequence that an offender who is fined and fails to pay that fine is committed to prison and even that after a lengthy and expensive court process.

In making the recommendation, I had it in mind that the obligation to pay the licence fee should be no different from the requirement of consumers to pay other public charges such as the water rate and standing charges for other public utility services. In particular, I see no reason why the licence fee, payable under the Wireless Telegraphy Act should not be treated on all fours with the provision of the Water Act 1945. Under the Act, the Water Authority or Company can collect its debts through civil process in the County Court with bailiffs able to recover the debt and court expenses once judgement has been made.

*D. G. ...
D. G. ...
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*Non-use
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BBC.*

Although the BBC would not have the last resort of cutting off supply, the process of being taken to court and to be publicly branded as a bad debtor would be sufficient to ensure that most people, if not completely feckless or unable to cope with life, paid their licence fee.

In recent years the number of convictions for non payment of the licence fee has escalated to 108,830 in 1984. In the NAO Report of 1985, the Home Office estimate of 1.6 million long term licence evaders was quoted. Clearly the potential exists for establishing a large number of criminal records and fines. Should those fines not be paid, and a proportion of them undoubtedly would not be, the number of persons committed to prison for non-payment of a licence fee-related fine would grow. In 1983, it was estimated that **400 men and 120 women** were imprisoned for non-payment of such a fine at great cost to the tax payer which seems foolish. Seven days imprisonment, according to the latest Home Office figures, costs on average £275.

The Home Office and the BBC are introducing payment of the licence fee by direct debiting. The change in responsibility for collection of the fee may also provide the opportunity to establish computer records of licence payment adapted to the need of new arrangements for collection and enforcement and establishing a customer supplier relationship which could be built on in future.

John Wood
J.W.
Chairman

Rt Hon Margaret Thatcher MP
Prime Minister,
House of Commons.

See pages 9 and 10

**BROADCASTING IN THE '90s:
COMPETITION, CHOICE AND QUALITY**

THE GOVERNMENT'S PLANS FOR BROADCASTING LEGISLATION

**A WHITE PAPER PRESENTED BY THE SECRETARY OF STATE
FOR THE HOME DEPARTMENT**

COMMENTS OF PACTEL CORPORATION

FEBRUARY 1989

PREFACE

As a US investor in UK Cable, PacTel Corporation supports the Government's objectives of increased competition, choice and quality in the provision of broadcasting and other local services to consumers. We are, however, concerned that the regulatory regime proposed by the Broadcasting White Paper may not achieve these objectives.

Together with other interested parties, we have commissioned a study headed by Charles Jonscher of Booz.Allen & Hamilton, London to evaluate the impacts of several of the White Paper proposals, chiefly those contained in paragraphs 6.32 to 6.41 concerning local services.

The results of Dr. Jonscher's team's analysis are incorporated in the comments prepared and hereby submitted by PacTel. The study confirmed our initial view that the operation of the regime as proposed will lead to a fundamental shift in the basis of profitability in the UK cable industry and, hence, negatively impact the choices available to British consumers.

PacTel's intent in making this submission is to give the UK Government the benefit of the added perspective of a US investor in UK cable.

References in the text are to White Paper paragraph numbers unless otherwise stated.

Thank you in advance for your consideration of our comments.

9.0 EXECUTIVE SUMMARY

- 0.1 PacTel has already made significant investments in the British cable industry and is contemplating additional substantial investments.
- 0.2 PacTel is very concerned about the proposed regime concerning Local Area franchises found in the Broadcasting White Paper because, as is confirmed by Booz•Allen's analysis, it sets up a regime under which few investors would wish to pursue cable opportunities in the UK.
- 0.3 We are particularly concerned about:
- Vertical separation - that is the inability of a service deliverer to also retail services to the customer
 - The proposed levy on ITC franchises
 - The competitive tendering process

Any of these proposals individually and particularly when taken together will lead to a climate in which the benefits of increased choice provided by cable will not reach British consumers.

- 0.4 Unless cable investment takes place now there is little prospect - particularly as the use of MVDS may be some way off - of competition in the provision of entertainment services and telecommunication services provided to the public. We encourage the new regime for broadcasting legislation to take into account the specific qualities and advantages of cable and refrain from subjecting it to rules to which other means of delivery are not subjected. Otherwise, cable may be pre-empted unfairly as a player in the competitive fields of TV and telecommunications.
- 0.5 We can see no reason why the present foreign ownership rules relating to cable companies should remain in effect. (Adverse public interest or cross-ownership conditions excepted).
- 0.6 The Government should not let any future SMATV regulatory regime interfere with the economic prospects of wider scale operations.

1.0 INTRODUCTION

- 1.1 PacTel Corporation (PacTel) is the holding company for the diversified businesses of Pacific Telesis Group, a regional Bell holding company headquartered in San Francisco, California. Pacific Telesis is one of the 30 largest publicly held companies in the US. Revenues for 1988 were \$9.48 billion with net profits of \$1.19 billion. Total employees exceed 69,000.
- 1.2 The UK has been in the forefront in the development and liberalisation of telecommunications services in Europe. PacTel is encouraged that the Government is considering ways to stimulate competition in broadcasting, and we would like to play a role in providing the competition and increased choices the Government seeks in the provision of broadcasting **and** telecommunications services at the local level.
- 1.3 We have demonstrated our interest through our present investment in East London Telecommunications Ltd. (ELT). The ELT investment and the prospect of future participation were considered before the publication of the White Paper on Broadcasting. In light of the uncertainty raised by the White Paper we are concerned about the future regulatory regime in respect to the use of cable and other means of delivery for the provision of local services.

2.0 STATUS OF UK CABLE

- 2.1 The economic viability of the UK cable industry is far from secure. This indicates that many of the Government's proposals could be inappropriately timed. Exhibit 2.1 depicts the nascency of cable development in the UK. Despite over 7 million homes being enfranchised or proposed for franchising in broadband cable, the build only passes 400,000 homes - less than 6% of that total.
- 2.2 Exhibit 2.2 demonstrates that although recent UK growth rates are comparable to US cable, the cable build is dramatically less than that of the US. Recognising that the US has a 20+ year cable history and that significantly different factors drove early demand (e.g. improved reception), it is nonetheless interesting to note that substantial policy change in respect of competition was not considered until penetration of cable had reached a very large percentage of homes passed. Even at today's 55% penetration, the National Telecommunications and Information Administration (NTIA) views that the industry is "just now approaching a public policy crossroads". (NTIA report - Video Programme Distribution and Cable: Current Policy Issues and Recommendations, June, 1988). It is important to note that this crossroads will have been reached, following, not preceding commercial success.

Exhibit 2.1

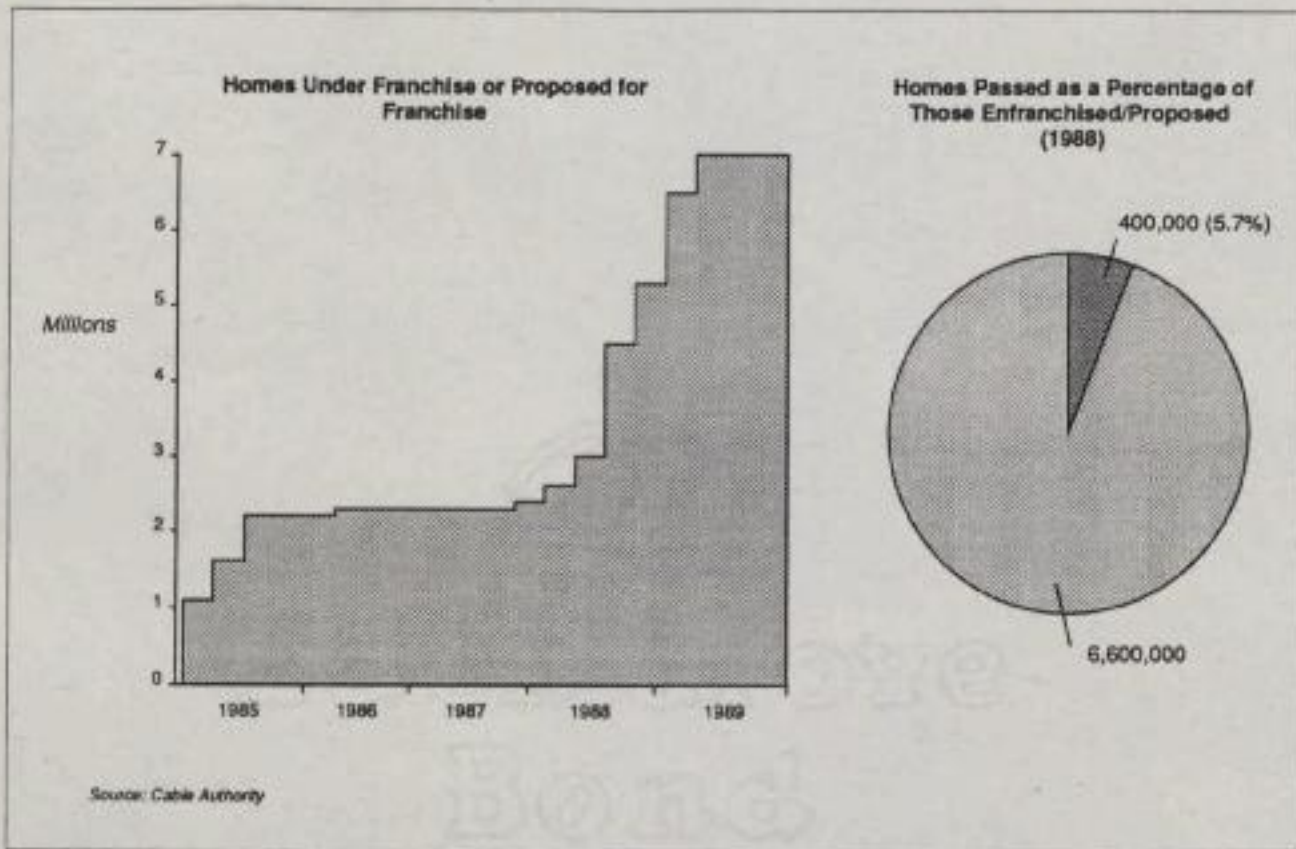
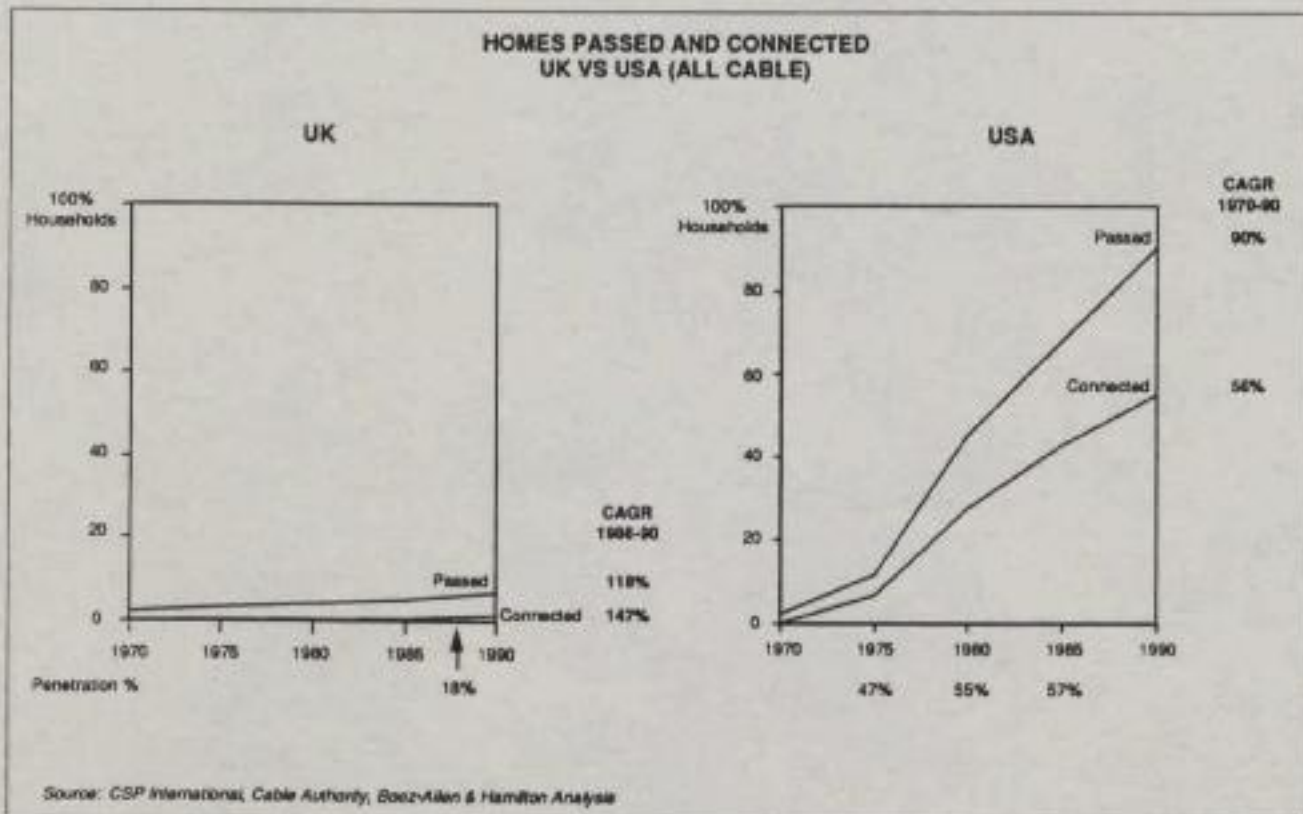


Exhibit 2.2



3.0 WHITE PAPER PROPOSALS

- 3.1 In our judgement, many of the rules proposed by the White Paper [Paras 6.32 - 6.41] apply only to a mature industry and, if implemented at this stage, would derail the Government's stated objectives of competition, choice and quality in broadcasting services at the local level. The negative impact could be substantial: fewer homes would be served, fewer channels would be supported and, as a result, less programming would be developed. Additionally, the infrastructure to provide interactive services and an alternative network for local telecommunications service would not be developed.
- 3.2 Specifically there are three proposals which prospectively radically diminish the attractiveness of cable as an economically viable investment, and as a result would further slow the development and distribution of quality programming choices:
- 1) The activities of delivering and retailing of cable TV services are to be separated. A delivery operator will invest in, construct, operate and maintain the cable network, access to which will be leased to a potentially unlimited number of retailers. The retailers will market programmes to, and administrate the billing of customers within the franchise area.
 - 2) There is a definite possibility of licensing competitive delivery operators within the same franchise area. Those who remain the sole delivery operator (irrespective of whether they are involved in retailing or not) will be liable to a levy.
 - 3) The Local Area franchise will be awarded to the "highest bidder". It appears that offers will be submitted in a sealed envelope - subject to certain pre-qualification.

4.0 RETAIL AND DELIVERY - ECONOMICS OF INVESTMENT IF SEPARATED

- 4.1 Exhibit 4.1 discusses the structure proposed by the White Paper [Paras 6.35 - 6.36] and the significance of several factors relative to each type of player in the chain. The separation of retailing and delivery functions would result in an entirely new industry structure where both the operating and financial risk undertaken by investors in delivery systems would be dramatically increased. At the same time the ability to direct the investment would be effectively taken away from the investor and put into the hands of unproven retailers. The lack of investment direction combined with the tenuous viability of start-up retailers significantly reduces the attractiveness of an already high-risk, long-term investment.
- 4.2 Relative to the investment required to construct a cable system, the investment required to start up a retailing business is minor. The assurances a delivery system investor would require from retailers in order to build the system (e.g. long term contracts,

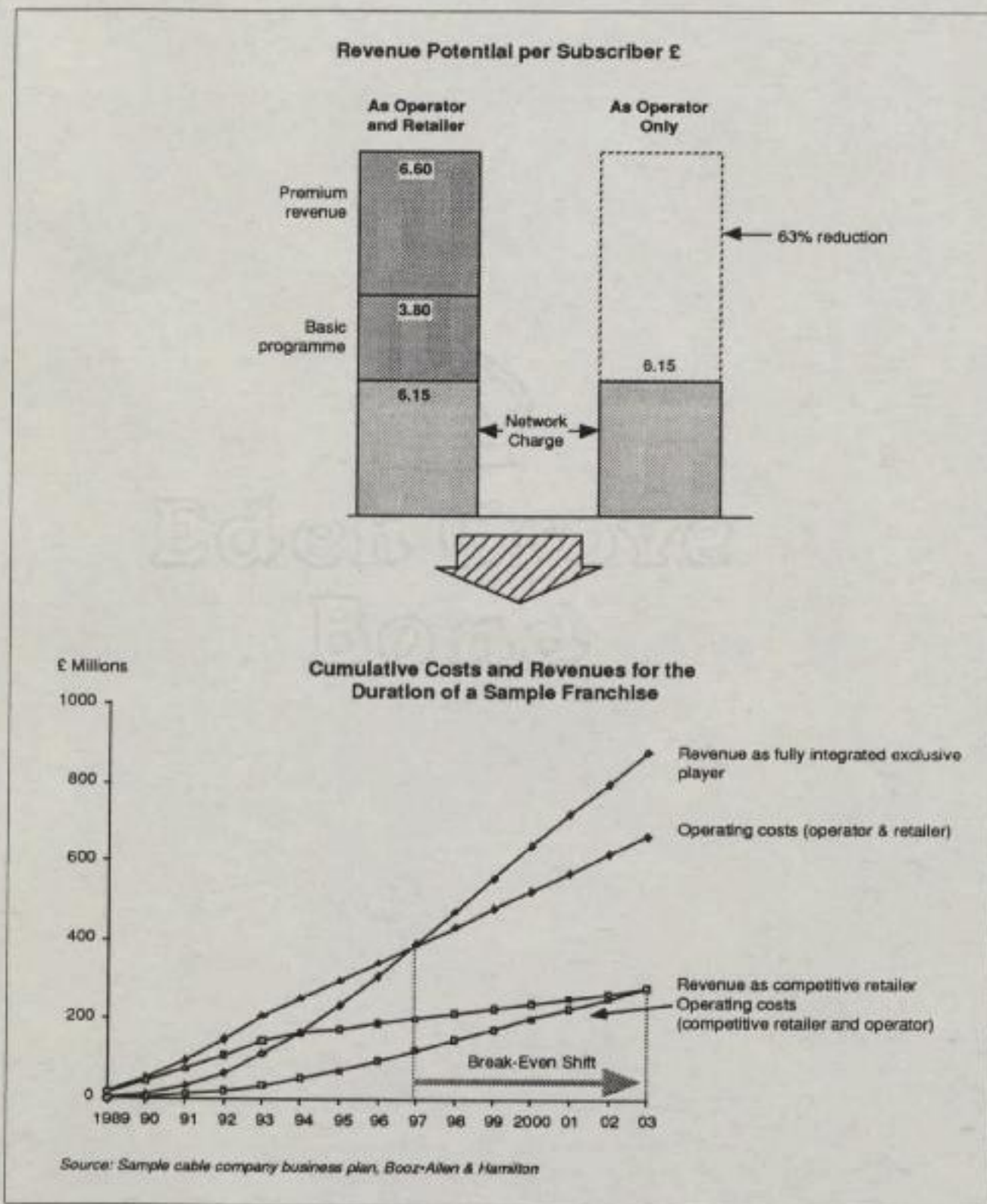
fixed rates, minimum customer requirements) would not be tenable to the retailer. However, without such an obligation, the retailer would have substantially less incentive than the operator to maximise the use of the network asset since he has undertaken no risk in its development.

Exhibit 4.1

Issue \ Player	Operator	Service Provider	Retailer
Activity	<ul style="list-style-type: none"> • Bids • Builds • Maintenance 	<ul style="list-style-type: none"> • Makes and assembles programmes 	<ul style="list-style-type: none"> • Bundles programmes • Sales and marketing • Administration & billing
Revenue	<ul style="list-style-type: none"> • Selling network access 	<ul style="list-style-type: none"> • Advertising • Subscription 	<ul style="list-style-type: none"> • Connection fees: <ul style="list-style-type: none"> - one-time connection - basic/premium
Margin on Asset Base	○	◐	●
Potential Economies of Scale	●	●	◐
Investment	●	◐	○
Barrier to Exit	●	◐	○

Key: ○ Insignificant
 ◐ Neutral
 ● V. significant

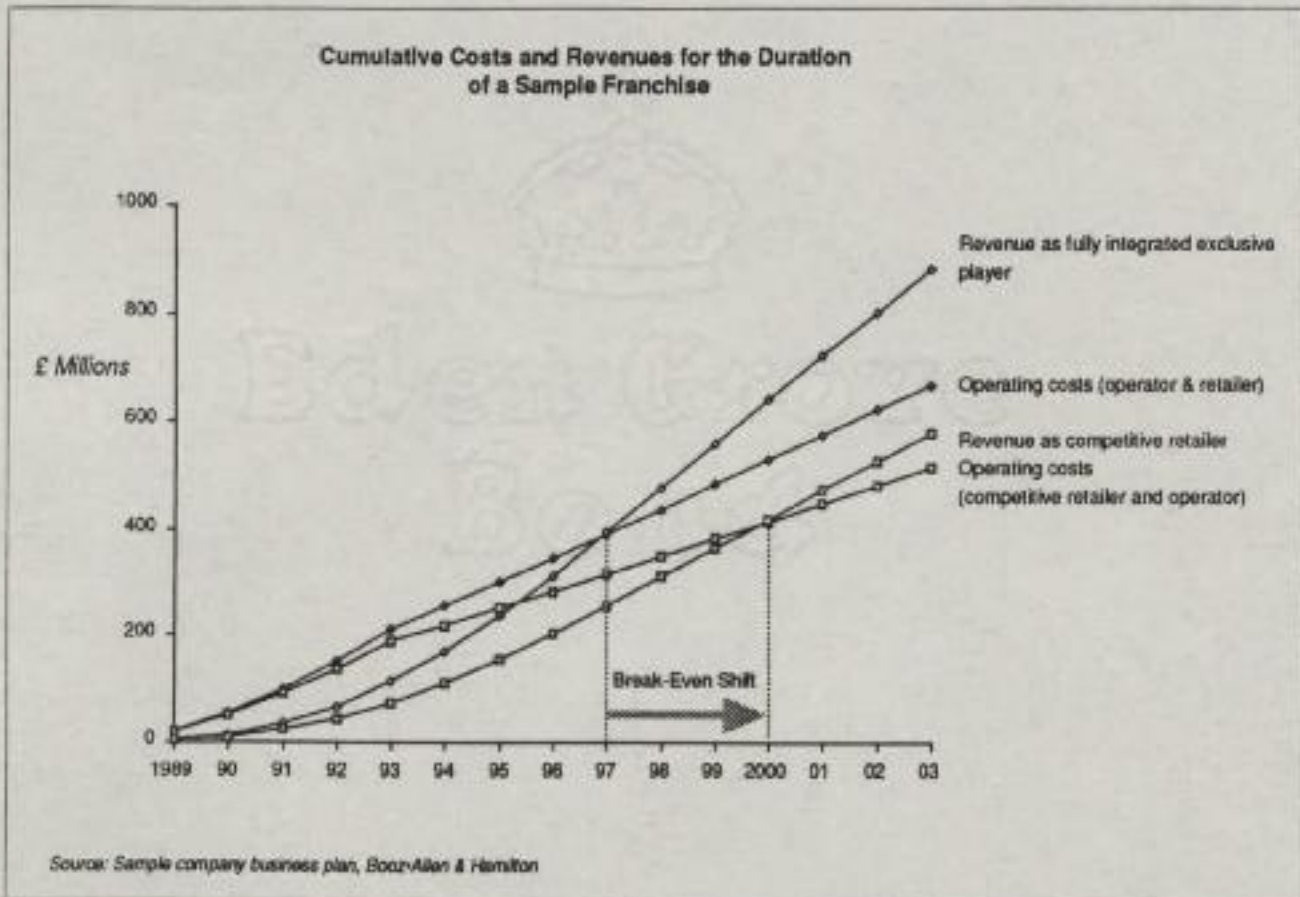
4.3 The typical break-even point for a cable franchise is seven to eight years, and cumulative losses are not typically recouped until at least three years later. Prevention of access to the value-added business of retailing dramatically retards the break-even point of an already unpredictable venture, despite the lower costs of the delivery-only business. Exhibit 4.3 demonstrates the effect on break-even where retailing of services is not provided by the operator. Revenue potential per subscriber is reduced by 63% whereas operating costs are reduced by only 52%. Cost reductions to the operator from the separation of retailing and delivery are disproportionately low relative to the operator's decreased revenue. The net effect in this representative business plan example (see exhibit 4.3) is that break-even is retarded by seven years - pushing the break-even point to the end of the franchise period.



4.4 In actuality, the previous example would never materialise because we do not think anyone would invest on such a basis. The Government has already recognised the potential problems with respect to the separation of retail and delivery. Hence, the White Paper provides that an operator would be allowed to retail some services provided

that the delivery systems for others to retail services would not otherwise be built [Para 6.36]. Using the same business plan, Exhibit 4.4 assumes that the operator retails services and obtains a 25% share of the retail market. (Broadly comparable to the 18.6% achieved in cellular telephony by Vodac). Even in this aggressive case where participating at both levels (similar to Vodafone and Vodac) break-even would be retarded some three years.

Exhibit 4.4



- 4.5 The uncertainty created by the new industry structure coupled with retarded break-even increases the risk associated with cable investment. The result is an upward adjustment in the cost of debt funding and reduced availability of debt funding to build cable systems in the UK. Borrowing becomes considerably more expensive, if still possible, and more equity investment is required.
- 4.6 The combined effects of increased cost of debt and decreased revenue have a devastating effect on the rate of return for a Local Area franchise using cable as its primary means of delivery in the UK. The following are three scenarios which represent the potential development of the market environment for a cable operator under the proposed regime:

- Scenario A: Local delivery operator with exclusive right to retail. Market interest rate. (Current regime.)
- Scenario B: Operator participating in retail who achieves 25% retail market share.
Higher than market interest rate*, 53% of original revenue, 64% of expenses.
- Scenario C: Operator only - no retail participation
Higher than market interest rate, 37% of Scenario A revenue, 48% of expense, debt to equity ratio limited to 2.5:1.

4.7 Table 4.7 lays out the key financial measures and internal rates of return for the three scenarios discussed above. There are several important notes:

- 1) Scenario A represents the base case for a representative business plan under the current regulatory regime. Given the nascency of the UK cable industry there exists already substantial uncertainty with respect to future build, uptake rates, and resultant cash flows. This uncertainty is further compounded by the launch of DTH simultaneously to cable, a source of competition which did not exist during the early development of cable in the US. The market and competitive risks to develop cable television under the current regime are substantial. The projected 25.5% rate of return is required to warrant investment.
- 2) Scenario B is, we think, the most likely case assuming the White Paper regime is adopted and some retailing of services would be allowed by companies that are separate legal entities. Under this scenario the rate of return drops to 8.6% (comparable to long-term, risk-free government bonds).
- 3) Scenario C represents the case where the rigid separation of retail and delivery is employed, and there is a dramatic rise in the equity required. The rate of return in this case falls to 2.2%.

In all cases (except the base case Scenario A) it is fair to say that if the White Paper conditions were in effect at the time we originally evaluated UK cable investment, the prospective internal rates of return would have dictated that we should not invest. As such, it is likely that the benefits of cable investment (i.e. increased choice) would not reach customers in those franchise areas.

4.8 Cable is a long term infrastructure investment where, for example ducting systems which typically represent up to 60% of capital costs are written down over a forty-year period. Under the current regime profitability and positive cash flow do not occur for some years. Hence the terminal value component of the investment's overall attractiveness is a critical factor.

* due to delay of break-even

Exhibit 4.7

FINANCIAL FORECAST 1988-2002						
Scenario	Cum. Interest Cover	Interest Rate	Revenue	Expenses	Capex	IRR
A	18.6	12	100%	100%	100%	25.5%
B	0.7	17	53%	64%	100%	8.6%
C	0.6	17	37%	48%	100%	2.2%

Note: % of Revenue, expenses and CAPEX expressed as % of the original, pre-white paper business plan, 8 multiple for terminal value, 20% discount rate.

Source: Booz Allen Analysis

5.0 COMPETITION AND THE LEVY

5.1 The Government's intention of increased competition in local delivery is realised in the broader entertainment domain (Exhibit 5.1A). Cable retailing experiences significant price pressure directly from competing TV technologies. As shown in Exhibit 5.1B the cost of cable is competitive with, but slightly exceeds, the average yearly cost of more widely accepted and available competing TV technologies. A cable franchise does not enjoy monopoly status in terms of consumer choice and must attract customers through increased quality programming choices at a competitive rate. When unbundled, cable is cheaper on a per channel basis than its competition. However, consumers are generally not aware of nor do they have access to these benefits until the cable system passes their door. (Exhibit 5.1C).

Exhibit 5.1A

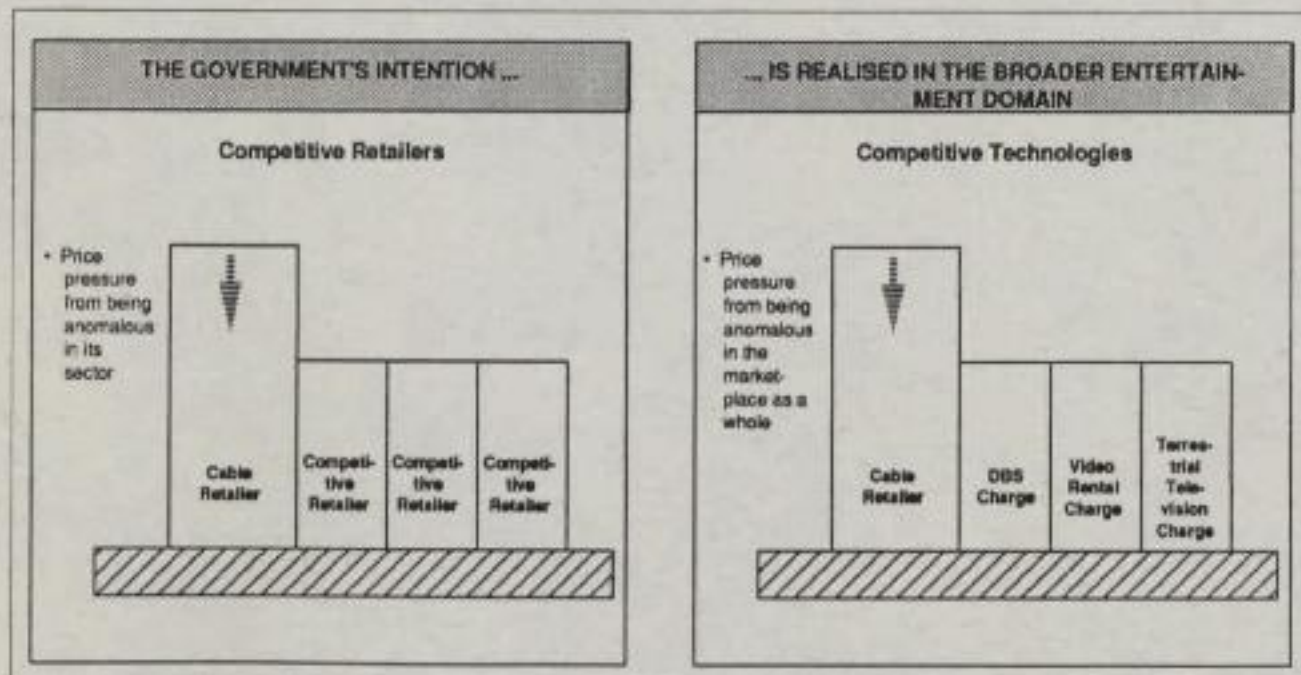


Exhibit 5.1B

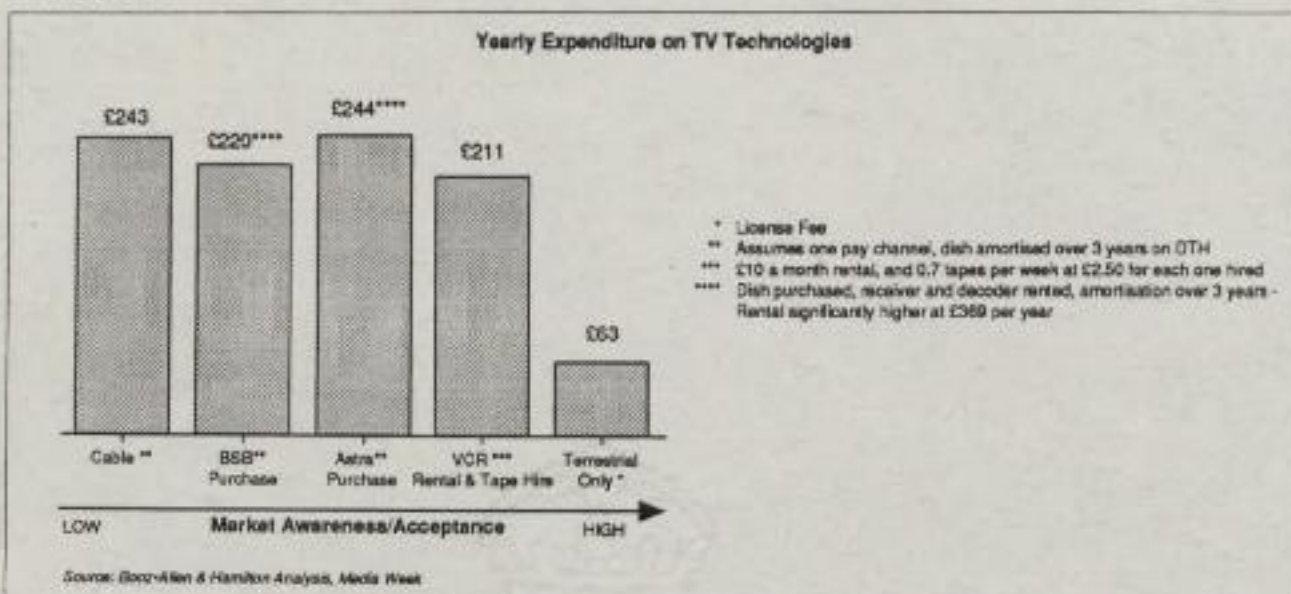
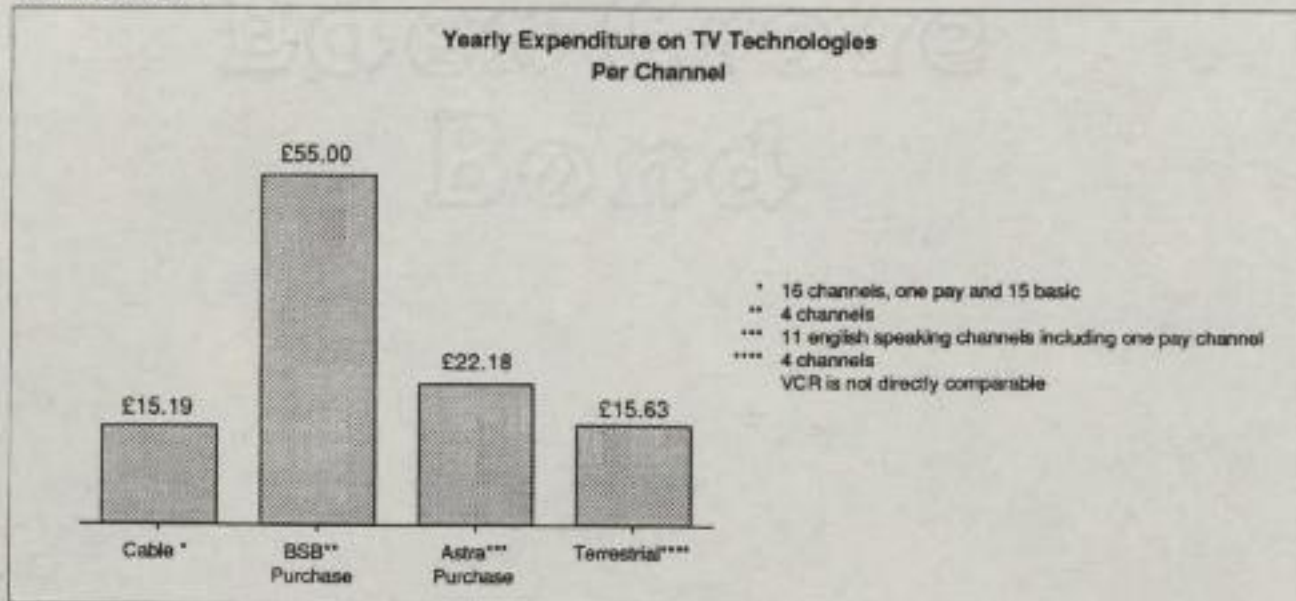
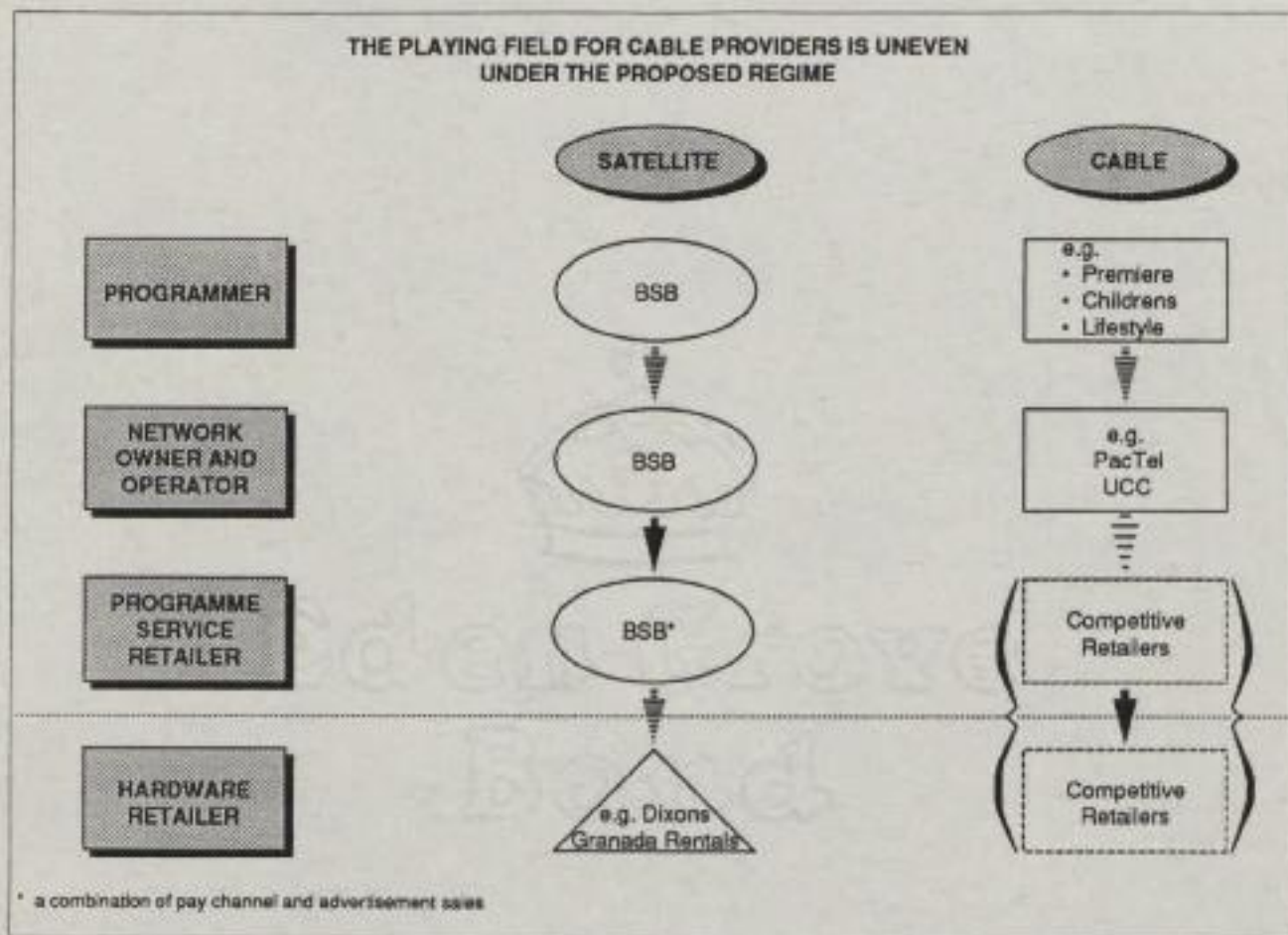


Exhibit 5.1C



- 5.2 The playing field would be substantially uneven considering that cable providers are the only member of the proposed ITC domain (respecting new media) not allowed exclusive vertical integration rights. (Exhibit 5.2).
- 5.3 It is therefore difficult to support the Government's position that an ITC franchise not subject to competition from another ITC franchisee ought to be subject to levy [Para 6.34]. The only circumstances under which a franchisee ought to be subject to levy is where a specific privilege or unique benefit (e.g. use of scarce spectrum, automatic franchise renewal) is accorded the franchise. Even in such circumstances the economic impact on the operation and potentially increased costs to consumers would suggest a nominal levy structure.



6.0 COMPETITIVE TENDER

- 6.1 Competitive bidding [para 6.34] offers no assurance that the highest quality, most viable contender will win the franchise. In fact, competitive tendering conflicts with "technological neutrality" because the highest bid will inevitably come from the company that envisages the least sophisticated and comprehensive (i.e. lowest cost) network.
- 6.2 Additionally, the build programme will be likely to suffer from the fact that the highest bid will come from those who over-estimate the prospects of the business. Any economic premium associated with competitive bidding is going to diminish returns from cable investments and thereby further reduce its attractiveness. The consistent build-up of the infrastructure is therefore threatened if financial difficulties ensue or, if too large a cost must be passed onto the consumer.

7.0 CABLE AND TELECOMMUNICATIONS

- 7.1 Under the present cable regime cable broadcasting and telecommunication issues are inextricably linked. Technically they will always remain so, as is recognised by the White Paper [Para 6.42]. Every cable application submitted within the last 18 months (with one exception) has referred to the future telecommunications use of cable systems. Early results coming in from cable voice telephony and telecommunications experiments and field trials point to telecommunication revenues being important in the future development of cable. They offer perhaps the only way in which the advantages of competition in provision of voice telephony and other telecommunication services will materialise.
- 7.2 We submit that without breaching its intent to let the market decide on the best means of delivery (in a local setting) of alternative television, the Government should recognise the particular qualities and potential advantages of cable not only in the broadcasting but also the telecommunications field. In paragraph D3.12 of the Report of the Communications Steering group "The Infrastructure for Tomorrow" there is expressed the hope that one-way service providers whose principal function will be provision of entertainment services and one-way telecommunications will in time expand their businesses to two-way services. If by virtue of the competitive tendering procedure (see paragraph 6.0 above) people are encouraged to put in 'cheap and cheerful' systems such migration will be much more difficult. It is suggested that even within the new framework some weight should be given to the intention to build a more sophisticated infrastructure capable of being easily translated into a two-way telecommunications system. For without such sophisticated broadband system there is little likelihood in the foreseeable future of providing interactive services such as home shopping quickly and easily to the public.
- 7.3 The only "winner" in the regime as proposed in telecommunications terms is likely to be BT. For not only will they face virtually no competition in the local loop but will have also held out to them the possibility of provision of entertainment services over their main applicable systems in the future (see paragraph 6.43).

8.0 SMATV

- 8.1 We note with some concern that the Government has not as yet made clear its plans for the place of small scale diffusion services within the new licensing regime. We should like to point out unless the present Cable Authority policy (i.e. of not granting licences in franchise areas) is translated into an ITC policy there is a further considerable likelihood that the viability of existing cable franchises and new ITC local area franchises will be affected.

- 8.2 SMATV has a part to play in bringing new alternative television services to the public as quickly as possible. However, if it is deregulated in any way a short term advantage and long term cost to the consumer may arise.

9.0 MVDS

- 9.1 Whilst appreciating the Government's efforts in attempting to supply a regime which enables a quick take up of technological advance we would respectfully submit the offer of use of MVDS services in technology neutral franchises is a 'red herring'.
- 9.2 Use of such services for the provision of programming to the public is a long way off. It appears from the White Paper (see paragraph 6.39) and subsequent statements by Government Ministers that it is unlikely that frequencies in the 2.5 Ghz and 12 Ghz bands will not be available. The development costs and lead time for equipment operating at 28 Ghz and above will be considerable. In reality one cannot see such means of delivery being available to local area franchisees for at least 5 years. And yet the possibility of its use is pivotal to much of the thinking concerning the structure and regime of Local Area franchises.
- 9.3 We welcome the possibility of using microwave for trunking purposes by present franchises (see para 6.41).

10.0 MUST CARRY RULE

- 10.1 The must carry rule will not be applied to new local ITC franchises (as stated in the letter from the Secretary of State for the Home Department to the Chairman of the Home Affairs Select Committee to the House of Commons published as an Appendix to the second report thereof). We do not see why this rule should apply to cable franchisees when it does not apply to Local Area franchisees.

11.0 NON-EC CONTROL

- 11.1 PacTel sees numerous advantages to British consumers, and virtually no disadvantage, if non-EC investors were to be permitted to participate directly in UK cable. Non EC companies have impressive track records for catalysing the uptake of cable; having achieved, for example, 55% penetration in the US. That expertise combined with the availability of capital can dramatically accelerate the development of a vigorous cable industry in the UK, without any real change of lack of control over programming content.

12.0 PACTEL PROPOSALS

12.1 In relation to paragraphs 6.34 to 6.36 of the White Paper:

- 1) Revise the proposals on vertical separation to take account of nascent industry status by permitting vertical integration for a full franchise term. It is open to the Government to state a review date some five, six or seven years down the line and it may reconsider this issue with a view to further legislation
- 2) Revise or eliminate the competitive tendering proposal to ensure that the highest quality most viable contender is not prevented from winning the franchise.
- 3) Abandon the proposals for a levy on ITC franchises while they remain a monopoly
- 4) Permit ownership and control of cable companies by non EC entities subject to an "adverse public interest" condition
- 5) Define SMATV's role in the regulatory regime ensuring that it does not interfere with the viability of larger scale operations.
- 6) Abandon the 'must carry' rule for cable franchises.

13.0 CONCLUSION

With the recent surge of investor interest in UK cable the British public stand to benefit substantially in terms of expanded entertainment and telecommunications services. We hope that the Government gives careful consideration to comments and adopts an appropriately timed regulatory regime that does not unnecessarily thwart investor interest and thereby limit the realisation of these expanded services.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

13 February 1989

Dear Andrew,

You mentioned last week a point raised by Lord Buxton with the Prime Minister about the Broadcasting White Paper's proposals to allocate television channel licences by competitive tender.

Lord Buxton suggested that these proposals may be impractical, given Stock Exchange regulations designed to ensure openness and shareholders' approval for major takeovers or acquisition bids by publicly quoted companies. Because our proposals for the award of licences to the highest bidder are new to the broadcasting industry, we clearly do need to establish how they would be treated under Stock Exchange regulations. We have asked the Department of Trade and Industry to make enquiries of the Stock Exchange as a matter of urgency.

I will write further when we have the result.

Yours sincerely,

P J C MAWER

Andrew Turnbull, Esq.

Fisher, Mark
 Flannery, Martin
 Foot, Rt Hon Michael
 Foster, Derek
 Fyfe, Maria
 Galbraith, Sam
 Golding, Mrs Llin
 Grant, Bernie (Tottenham)
 Griffiths, Nigel (Edinburgh S)
 Gropolt, Bruce
 Hardy, Peter
 Hattersley, Rt Hon Roy
 Haynes, Frank
 Heffer, Eric S.
 Hinchliffe, David
 Hogg, N. (C'nauld & Kilisyth)
 Home Robertson, John
 Hoyle, Doug
 Hughes, John (Coventry NE)
 Hughes, Roy (Newport E)
 Hughes, Sean (Knowsley S)
 Hysley, Eric
 Janner, Greville
 Kinnock, Rt Hon Neil
 Lambie, David
 Lamond, James
 Leighton, Ron
 Loffhouse, Geoffrey
 Loyden, Eddie
 McAllion, John
 McAvoy, Thomas
 McKelvey, William
 McNamara, Kevin
 McWilliam, John
 Madden, Max
 Mahon, Mrs Alice
 Marek, Dr John
 Marshall, David (Shettleston)
 Marshall, Jim (Leicester S)
 Maxton, John
 Meacher, Michael
 Meale, Alan
 Michie, Bill (Sheffield Healey)
 Mitchell, Austin (G'Y Grimsby)

Moonie, Dr Lewis
 Morris, Rt Hon A. (W'shawe)
 Nellist, Dave
 O'Neill, Martin
 Orme, Rt Hon Stanley
 Parry, Robert
 Patchett, Terry
 Pandry, Tom
 Radice, Giles
 Redmond, Martin
 Rees, Rt Hon Merlyn
 Reid, Dr John
 Richardson, Jo
 Robertson, George
 Rooker, Jeff
 Ruddock, Joan
 Sedgemore, Brian
 Sheldon, Rt Hon Robert
 Shore, Rt Hon Peter
 Short, Clare
 Skinner, Dennis
 Smith, Andrew (Oxford E)
 Smith, C. (Is'ton & F'bury)
 Steinberg, Gerry
 Stott, Roger
 Strang, Gavin
 Straw, Jack
 Thompson, Jack (Wansbeck)
 Turner, Dennis
 Wail, Pat
 Walley, Joan
 Wardell, Gareth (Gower)
 Wareing, Robert N.
 Williams, Rt Hon Alan
 Wilson, Brian
 Winnick, David
 Wise, Mrs Audrey
 Worthington, Tony
 Young, David (Bolton SE)

Tellers for the Noes:
 Mr. Bob Cryer and
 Mr. Ian McCartney.

Question accordingly negated.

Broadcasting

4.57 pm

The Secretary of State for the Home Department (Mr. Douglas Hurd): I beg to move,

That this House takes note of the White Paper, Broadcasting in the '90s: Competition, Choice and Quality (Cm. 517), and endorses the Government's proposals for the future of broadcasting contained therein.

Mr. Deputy Speaker (Sir Paul Dean): Order. I have to announce to the House that Mr. Speaker has selected the amendment standing in the name of the Leader of the Opposition. Mr. Speaker has also asked me to say that a large number of right hon. and hon. Members wish to speak in the debate. He therefore intends to impose the 10-minute limit on speeches between 7 and 9 o'clock, but hopes that those who are called before then will bear that in mind.

Mr. Hurd: Today the House of Commons takes its part—a leading part, of course—in the debate on the future of British broadcasting which was launched by the publication of our White Paper. The Government have asked for comments from the rest of the world by the end of this month and after that we shall begin to take decisions on the contents of a Broadcasting Bill, which we hope to submit to Parliament in the reasonably near future. In shaping our proposals we shall of course take fully into account the comments made in this debate and, a few weeks ago, in another place.

The White Paper is the Government's child, but its godparents are Professor Peacock and his fellow members, my hon. Friend the Member for Westminster, North (Mr. Wheeler) and the members of the Select Committee on Home Affairs. I know that my hon. Friend is hoping to catch your eye, Mr. Deputy Speaker. One of the godfathers commented in *The Times* today—*[Interruption.]*—on the whole favourably, on the progress of the infant, and possibly my hon. Friend will comment as we proceed. I pay tribute to their work as godparents, at least of this debate.

Everyone agrees that change is inevitable because of the wider choice that is now possible. That is the common ground from which all the representations that we have so far received start. The question is what the framework for such change should be. The proposals in the White Paper enable, but do not prescribe. We are not in the business of guessing in advance which of the possible new developments will come fast and which slowly—let alone of placing bets with taxpayers' money on such guesses.

Rather than describe in full the contents of a White Paper which has already been much discussed, I shall take this opportunity to talk about the philosophy that underlies it. I shall also comment on radio, because I believe that the changes now possible in radio are among the most exciting contained in the White Paper. However, for the time being I shall concentrate on television.

We are at a staging post in the history of British television. The first stage was one television service provided by the BBC. At that time, the BBC has to ensure that, as far as possible, its monopoly programme satisfied the tastes and interests of a widely varied public. Two channels followed, then three, then four.

Theoretically, we could ultimately imagine a television screen that had become more or less like a book shop. The

The second important feature about agency status is that it is the first step towards privatisation. The hon. Gentleman is concerned about accountability, but the Land Registry is accountable to the House. Privatisation would remove such accountability. Parliamentary questions may be asked about the Land Registry, but a study of the number of such questions asked shows that concern about it has diminished. Between June 1987 and June 1988, 52 parliamentary questions were asked, but from November 1988 only four questions have been asked. The hon. Gentleman has troubled to table only two questions. It is clear that his worries about the Land Registry have not produced, as one might suppose, a great swathe of parliamentary questions.

The Land Registry is essentially a service. I am aware that agency status has been granted to Her Majesty's Stationery Office and to Companies house, but to award such status to the Land Registry could lead to a worsening of terms and conditions of service, especially as there has been an influx of temporary employees to HMSO and Companies house. Such people could not, because of the lack of training, provide the efficient service and rapid response which the hon. Gentleman desires.

When agency status is established as a step towards privatisation, there is much fear, based on experience, that it will lead to an increase in charges. The *Financial Times* today states that statutory water companies plan to impose price rises of between 30 and 50 per cent. That has been announced as the privatisation legislation is being discussed in the House. It points out:

"The Government's difficulty is that ministers have no legal powers to control their price increases"

Once the gas supply industry was privatised, its charges increased. We already know that electricity charges have been increased by 15 per cent. as a prelude to privatisation.

House buyers who will use the services of the Land Registry perhaps once or twice in their lives need certainty and need to know that service is the priority rather than increased profits demanded by an agency as a step towards privatisation. Given the current situation, house owners and potential house owners need certainty and low charges above all else. In May 1988 the interest rate was 9.5 per cent. Since then those who have a £30,000 mortgage for 25 years have had to face a 32 per cent. rise in their mortgage repayments. In January, the interest rate was 13.75 per cent., which means that those with a £30,000 mortgage have seen their payments increase by £66.59. The repayments for those with an £80,000 mortgage held for 25 years have increased by 34 per cent., which is equivalent to £221.82. In those circumstances, we should make every endeavour to keep any additional charges that must be met on house sales to the absolute minimum. The hon. Gentleman has already demonstrated that the Land Registry has done that.

We do not want the reorganisation of the Land Registry, but we want its service expanded and developed. That should be done under the accountability that the House can provide. Therefore, I hope that the Bill will be opposed.

Question put, pursuant to Standing Order No. 19 (Motions for leave to bring in Bills and nomination of Select Committees at commencement of public business):—

The House divided: Ayes 104, Noes 127.

Division No. 85]

[4.45 pm

AYES

Adley, Robert	Kellett-Bowman, Dame Elaine
Alison, Rt Hon Michael	Kilfedder, James
Alton, David	Knapman, Roger
Arnold, Jacques (Gravesham)	Knight, Dame Jill (Edgbaston)
Ashdown, Rt Hon Paddy	Latham, Michael
Atkinson, David	Lawrence, Ivan
Beggs, Roy	Leigh, Edward (Gainsborough)
Beith, A. J.	Livsey, Richard
Bennett, Nicholas (Pembroke)	Lloyd, Sir Ian (Havant)
Bevan, David Gilroy	McCrinkle, Robert
Blackburn, Dr John G.	MacLennan, Robert
Blaker, Rt Hon Sir Peter	Martin, David (Portsmouth S)
Bowden, Gerald (Dulwich)	Michie, Mrs Ray (Arg' & Bute)
Boyson, Rt Hon Dr Sir Rhodes	Molyneux, Rt Hon James
Brown, Michael (Brigg & Cl'ys)	Monro, Sir Hector
Browne, John (Winchester)	Montgomery, Sir Fergus
Bruce, Malcolm (Gordon)	Page, Richard
Buchanan-Smith, Rt Hon Alick	Pattie, Rt Hon Sir Geoffrey
Burns, Simon	Pawsey, James
Butler, Chris	Raison, Rt Hon Timothy
Campbell, Menzies (Fife NE)	Rhodes James, Robert
Carlisle, John, (Luton N)	Riddick, Graham
Carrington, Matthew	Shaw, David (Dover)
Churchill, Mr	Shaw, Sir Giles (Pudsey)
Clark, Sir W. (Croydon S)	Shaw, Sir Michael (Scarb')
Coombs, Anthony (Wyre Forest)	Shepherd, Richard (Aldridge)
Coombs, Simon (Swindon)	Shersby, Michael
Critchley, Julian	Skaet, Sir Trevor
Dickens, Geoffrey	Smith, Sir Dudley (Warwick)
Dicks, Terry	Smith, Tim (Beaconsfield)
Emery, Sir Peter	Stanbrook, Ivor
Evans, David (Welwyn Hat'f'd)	Steel, Rt Hon David
Fearn, Ronald	Stewart, Allan (Eastwood)
Fishburn, John Dudley	Stradling Thomas, Sir John
Forsythe, Clifford (Antrim S)	Summerson, Hugo
Fox, Sir Marcus	Taylor, Teddy (S'and E)
Franks, Cecil	Thorne, Neil
Fry, Peter	Thornton, Malcolm
Gale, Roger	Townend, John (Bridlington)
Gill, Christopher	Vaughan, Sir Gerard
Glyn, Dr Alan	Walden, George
Goodhart, Sir Philip	Walker, Bill (T'side North)
Gorst, John	Wallace, James
Gow, Ian	Waller, Gary
Greenway, Harry (Ealing N)	Walters, Sir Dennis
Greenway, John (Ryedale)	Watts, John
Hicks, Mrs Maureen (Wolv' NE)	Wheeler, John
Holt, Richard	Widdecombe, Ann
Hordern, Sir Peter	Wilshire, David
Howells, Geraint	Woodcock, Mike
Hughes, Simon (Southwark)	
Irvine, Michael	Tellers for the Ayes:
Janman, Tim	Mr. John Bowis and
Jones, Robert B (Herts W)	Mr. David Nicholson.

NOES

Adams, Allen (Paisley N)	Clarke, Tom (Monklands W)
Anderson, Donald	Clay, Bob
Archer, Rt Hon Peter	Clelland, David
Ashley, Rt Hon Jack	Clwyd, Mrs Ann
Ashton, Joe	Cohen, Harry
Barnes, Harry (Derbyshire NE)	Cook, Frank (Stockton N)
Barron, Kevin	Corbett, Robin
Battle, John	Corbyn, Jeremy
Beckett, Margaret	Cummings, John
Benn, Rt Hon Tony	Cunliffe, Lawrence
Bennett, A. F. (D'n't'n & R'dish)	Dalyell, Tam
Birmingham, Gerald	Darling, Alistair
Blair, Tony	Davis, Terry (B'ham Hodge H')
Boyes, Roland	Dewar, Donald
Brown, Nicholas (Newcastle E)	Dixon, Don
Brown, Ron (Edinburgh Leith)	Dobson, Frank
Buchan, Norman	Doran, Frank
Caborn, Richard	Duffy, A. E. P.
Callaghan, Jim	Dunnachie, Jimmy
Campbell, Ron (Blyth Valley)	Ewing, Harry (Falkirk E)
Campbell-Savours, D. N.	Ewing, Mrs Margaret (Moray)
Canavan, Dennis	Fatchett, Derek

customer in a book shop is protected against dishonesty, fraud and obscenity, but he is not tapped on the shoulder from time to time and told that he has spent long enough in the thriller department and should now go to the science department instead. Similarly, he is not greeted at the shop entrance by a gentleman telling him that he is welcome to visit all departments of the shop, but before doing so he must pay a fee that will go to benefit only part of the book shop.

We are a long way from the television screen as a book shop, but we are approaching an intermediate stage. In the next decade there will be scope not merely for four but for dozens of television channels, most of which will be delivered, not by limited UHF spectrum but by satellite, cable or microwave. The core of this debate is how much specific prescription and regulation is required as we move to this next staging post.

Most of the discussion in answering that question has been about the quality of programmes—that is at the heart of the debate. Quality must not be equated with the preservation of existing interests, and neither should be exaggerate as perfect the quality of what we already have; a certain hyperbole creeps in from time to time.

Our constituents who press the button for ITV on a Saturday evening would be surprised to learn that they were tiptoeing into a temple of our national culture—that is not how they see it. There is much that is ordinary, as well as much that is good, in British broadcasting today. It is true that both the BBC and the independent commercial sector have many jewels in their crowns. I have been re-reading Lord Reith's speeches, and the pessimists who predicted in the 1950s that independent broadcasting would ring the death knell of quality—he used some striking phrases—have been confounded. Perhaps there is a lesson here for today's pessimists.

Mr. Derek Conway (Shrewsbury and Atcham): I am grateful to my right hon. Friend. Does he accept that some of the comments made about his proposals, notably in television discussions by the media intelligentsia, reject the very reasonable point that he is making, which is that there is not much to be defended, particularly on the BBC, at the moment? Programmes such as "That's Life" and "Panorama" would not recognise "unbiasedness" if it smacked them on the head. There is not a great deal to brag about in the present system, and there is much scope for improvement.

Mr. Hurd: There is quite a lot to boast about. Personally, I do not share my hon. Friend's distaste for the two programmes that he mentioned, which I sometimes see. Sometimes we are all irritated or even angered by what we see on the television, but I hope that what I have said strikes a reasonable balance. Some interested parties speak in hyperbole about the glories of British broadcasting, but it is true that both the BBC and the commercial sector have many jewels in their crown.

The main argument advanced against the White Paper—I think that I shall carry my hon. Friend the Member for Shrewsbury and Atcham (Mr. Conway) with me here—is that we are proposing to hand over broadcasting to market forces that will inevitably wreck the tradition of quality. Certainly, we believe that the viewer should take an increasing hand. As choice multiplies, less regulation and detailed prescription are needed. A little fresh air does no harm in broadcasting—indeed, I welcome the good,

refreshing wind that has been blowing through broadcasting in recent years, through the restrictive practices and occasional complacencies in both the BBC and the independent sector.

The White Paper clearly sets out six main safeguards for the quality of British broadcasting and—acknowledging your admonition, Mr. Deputy Speaker—I shall describe each of them briefly. When those six safeguards are added together, they provide a convincing refutation of the criticism that we propose to be rashly destructive of quality.

First, the BBC will—as the White Paper states—remain the cornerstone of public sector broadcasting. I do not doubt that that will still be true when in about five years' time, we start the next big clearly foreseeable debate on our broadcasting system and consider the renewal of the BBC charter.

The licence fee is not immortal and we want the BBC to experiment with subscription, which provides a more direct and legitimate link between viewer and broadcaster. We have deliberately not fixed a date for the replacement of the licence fee. We believe that it will be sensible, after 1991, to take into account, when setting the licence fee, the BBC's ability to raise income from subscription and other sources. By the time that the debate about renewing the charter is under way, we shall all have more experience of the working of subscription programmes. We shall also have had time to consider other problems, such as how BBC radio might be funded if the licence fee were replaced. None of those questions has been prejudged.

I am glad of the way in which the BBC, in contrast to some of its friends, has reacted to the White Paper. It knows that it is nonsense to suggest that we are subjecting the corporation to death by a thousand cuts. In practice, the BBC now enjoys greater certainty about its income for the next few years than it has traditionally enjoyed at many times in the past.

The second safeguard lies with Channel 4 and the Welsh S4C. The White Paper makes it clear that the remit which is the essence of Channel 4—to innovate and complement the broadcasting of others—must remain. S4C will continue with its present purpose. Under its remit, Channel 4 will provide guaranteed outlets for minority interests and high-quality programmes. For example, it will be required to devote a suitable proportion of its air time to educational programmes.

The question is not whether the Channel 4 remit should continue as it is—everyone to whom I have listened believes that it should, and that is certainly the Government's view. The question is whether the remit needs buttressing by some special financial arrangement in a world in which Channel 4 sells its own air time. We set out the options and arguments in the White Paper and I hope that right hon. and hon. Members will give the Government some guidance on this important point, which we have deliberately left open.

Mr. Alfred Morris (Manchester, Wythenshawe): Has the Home Secretary seen the anxieties expressed about the White Paper by the Royal National Institute for the Blind and by other organisations of and for disabled people? The RNIB fears that many important specialist programmes that are now available, not least those of the BBC, may be at risk and that the development of new services will be

[Mr. Alfred Morris]

impossible. They would benefit disabled people, but they will cost money. How does the Home Secretary respond to their anxieties?

Mr. Hurd: I understand the right hon. Gentleman's concern, but it is misplaced. I have already mentioned that the BBC will be continuing and I outlined the remit of Channel 4 to do things that other channels do not do, so the right hon. Gentleman's concerns will not be affected as all that remains unchanged. In addition, there will be far more space and opportunity and my hon. Friend the Minister of State will deal with that general subject in his winding-up speech. Far from being reduced, the opportunity for the programmes that the right hon. Gentleman and the Royal National Institute for the Blind have in mind should be enhanced.

The third safeguard is the quality tests that the White Paper proposes for Channel 3 and Channel 5 franchises. Both will be required to provide a diverse programme, so they are calculated to appeal to a variety of tastes. Tired and limited formats are not only boring for viewers and advertisers, but will not be acceptable to the Independent Television Commission—the successor body to the Independent Broadcasting Authority—because of the requirement for diversity. The Channel 3 regions, in addition, will have an express statutory requirement to show programmes produced within their regions. Prominence must be given to high-quality news and current affairs on Channels 3, 4 and 5 taken separately and there must be at least one body effectively equipped and financed to provide news for Channel 3. Schools programmes will have a guaranteed place on commercial television.

Those are the component parts of the quality hurdle and the height and importance of the hurdle thus constructed have been somewhat neglected in the arguments about competitive tender. Competitive tendering only comes after those concerned have got over the quality hurdle. That proposal arises from the present arrangements for awarding ITV contracts. I have always believed, since long before the debate in the country started, that they are deeply unsatisfactory. I have never blamed the IBA for the system, because it did not invent it. It seemed the best system at the time when Parliament was last reviewing those matters. But life moves on and the present system has turned out to be opaque, subjective and secretive. I have not been able to check the quotation, but I think that it was *Gibbon* who said that the Merovingian dynasty in France was a system of *despotism*, tempered by assassination. That is not an unfair description of the present system for letting ITV franchises. One moment all the franchise holders are there, the next moment, one of them has disappeared down an *oubliette* with no particular reason given and no redress available. The White Paper proposes a straightforward approach, which could be a substantial improvement on that.

Mr. Norman Buchan (Paisley, South): Will the right hon. Gentleman give way?

Mr. Hurd: I shall give way when I have finished this point.

Competitive tender, as the Peacock committee said, is an inherently fairer and more objective procedure, which would also secure a proper return for the taxpayer in the

use of a scarce resource. It is wrong to describe it simply as an auctioning of licences because that ignores the quality hurdle, which I have described. I know that the new chairman of the IBA, Mr. George Russell, is looking carefully at the interaction of the two concepts of the quality hurdle and the competitive tender. We believe that both are essential—this is an important point—but the exact way in which we ask the ITC to operate them is a matter on which we shall listen carefully to the advice that he and many others may give.

Mr. Bruce Grocott (The Wrekin): The Home Secretary began his remarks by being critical of the quality of some of the programmes on ITV. He is now making great play of the fact that there will be a quality hurdle. But the quality hurdle will be lower than any that exists at present and its touch will be lighter, so how can he square his view that programmes are not as good as they might be now with recommending a system with a lower quality hurdle?

Mr. Hurd: The accusation made against us is that we are throwing away all concern for quality, but that is not so and the quality hurdle that we prescribe, which will be an enforceable condition for the letting of franchises, is substantial compared with the way in which it is often described. I have taken the House through the different elements that make up the hurdle and if the hon. Gentleman studies what I have said, he will agree, as he is fair-minded, that it is considerably more substantial than has been supposed by the more shallow critics of the White Paper.

Sir Giles Shaw (Pudsey): In dealing with that point, will my right hon. Friend recognise that the issue of tendering came through the original Peacock report? As I understand it, the Peacock committee, although not in session, has broadly altered its view and in its recent submission to my right hon. Friend it has made it clear that it considers that the ITC should have an override in relation to the concept of the highest bidder. Bearing in mind that despite the Gibbous system that he has described, ITV has produced some substantially effective programming over the past 15 years, will my right hon. Friend look at the new representations from the Peacock committee?

Mr. Hurd: I had my hon. Friend's point in mind when I said that we believe, for the reasons that the Peacock committee gave and continues to give—which the Select Committee also gave when it reported on the matter—that both the elements of the quality hurdle and the competitive tender are good and necessary, but that the interaction between them and how the House asks the ITC to operate the new system are matters on which it is reasonable that we should listen carefully to any suggestions that George Russell or hon. Members may want to give.

I shall now turn to the fourth safeguard.

Mr. John Greenway (Ryedale): Before my right hon. Friend passes on to another point, I want to make a point about quality. Can my right hon. Friend reassure the House about the Government's commitment to regional programming and production? Can he say how that is to be achieved in the regions where there is little independent regional production, unless the regional ITV companies are to have a commitment to produce some of the programmes that they show?

Mr. Hurd: That will be part of the hurdle. We are also encouraging—and as my hon. Friend knows, this is already happening—a cluster of smaller independent producers, not only in London, but in the regions. That has been one of the hopeful developments in television in recent years.

Mr. Buchan: Will the right hon. Gentleman give way?

Mr. Hurd: I should like to make some progress now. The fourth matter, which I know is on the hon. Gentleman's mind, are the necessary measures against the concentration of ownership. The White Paper makes it clear that rigorous enforcement is necessary. We should regard it as quite unacceptable if British broadcasting were allowed to be dominated by a handful of tycoons of international conglomerates. Effective rules that will safeguard diverse broadcasting ownership, editorial diversity, opportunities for new broadcasters and fair competition are key parts of our aim. We have set out a range of principles and invite suggestions on the scope and formulation of the rules that will flow from those principles. We are interested in views on the best mechanisms for enforcing the rules. Anybody who believes that he has found loopholes has failed to take into account that the White Paper deliberately did not attempt to set out at that early stage a complete set of detailed rules.

Mr. David Clelland (Tyne Bridge): Will the Home Secretary give way?

Mr. Hurd: No, because I want to continue this part of the argument. People should not be too quick to assume that there will be no limit on newspaper interests in the regional Channel 3 licences. The regional Channel 3 licences will, taken together, provide a major television channel which will be expected to maintain universal national coverage and which may operate national networking arrangements.

If a major national newspaper controlled a regional Channel 3 licensee, it could result in an excessive influence over communications and the flow of information. UHF television services will still be influential users of a scarce resource. Their ownership must remain diverse. We shall consider suggestions to tighten the present proposal in the White Paper that one person could control two, but not more than two, regional Channel 3 franchises. For example, there may be a case for a rule that would prevent anyone from controlling two large such franchises.

Satellite television is much in the news this week—at least in some newspapers. The White Paper is clear that the ownership of satellite television, including the use of satellite channels outside the jurisdiction of this country, will need to be taken into account, and that rules will have to be included on this in our proposals. The House may know that the hon. Member for Dagenham (Mr. Gould) has written to my noble Friend the Secretary of State for Trade and Industry about the media interests of Mr. Murdoch's organisation. My noble Friend has replied to him today, explaining that it is the Director General of Fair Trading who has the responsibility of keeping commercial activities under review and can refer them to the Monopolies and Mergers Commission if he thinks fit. My noble Friend adds that the director general is aware of public comment about the widespread media interests of some groups and is already keeping an eye on that.

The fifth point concerns the safeguarding of standards. We propose no relaxation of the present requirements to protect the consumer on such matters as taste, decency and offensiveness. The White Paper proposes that that part of the legislation should be reinforced. Consumer protection requirements will be extended to all United Kingdom broadcasting services and the exemption that broadcasters have from the existing obscenity legislation will be removed. Sanctions will be provided against those who sustain unacceptable foreign satellite services.

Mr. Robert MacLennan (Caithness and Sutherland): Does the Home Secretary recall that only last week during our debate on the Official Secrets Bill he stated that the Obscene Publications Act 1964 was widely disproved of? Why, therefore, is he today seeking to extend it in this fashion?

Mr. Hurd: The reason is because one of the difficulties is precisely that broadcasters are exempted from it. By plugging that loophole we are not dealing with all the defects of the legislation, but with one. I shall give way to the hon. Member for Paisley, South (Mr. Buchan) or he will explode.

Mr. Buchan: Virtually the only regulation that is taken care of in the White Paper is the category of decency and taste, which the Home Secretary is mentioning. Does he agree that there is nothing either in what he has said or in the White Paper that satisfies Professor Peacock who says:

"This aspect of programme standards"—
that is to say quality, decency and taste—
"distracts attention from the much more important one of ensuring that programmes of high quality which challenge the viewer and foster our national cultures continue to be produced."
Regulation in the Home Secretary's eyes means the suppression of dirt. Regulation in our eyes means ensuring good quality programmes.

Mr. Hurd: The hon. Gentleman's criticism would be just if the White Paper were proposing the abolition of the BBC and the Channel 4 remit, and the auctioning of franchises with no assurance of quality. As everything I have said so far is designed to show that that is not so. Therefore, his criticism is wholly mistaken.

I am moving on to the hon. Gentleman's favourite subject which is the Broadcasting Standards Council. I am glad that he recognises its importance. It will be made statutory under the legislation. It is already fulfilling a needed role as a focus for public concern and as a watchdog across the range of services for which the individual regulatory bodies are responsible.

The BSC was established last year under the chairmanship of Lord Rees-Mogg to consider the portrayal of violence and sex, and matters of taste and decency in broadcasting, cable and video works. I understand that he thinks that the council has made good progress on what he set as its priority task of drawing up with broadcasters a code of practice on these matters. It is about to undertake an extensive process of consultation on a draft code with the broadcasting organisations, the public and representatives of other interests.

The council believes that research in this area, which has certainly been fragmentary and conflicting in the past, is particularly important. It is taking steps to help that forward. In that, it is following the advice of the Home

[Mr. Hurd]

Affairs Select Committee. The council has also begun, wisely, to establish useful links with broadcasting, regulatory and other organisations in Europe.

Mr. George Walden (Buckingham): Most hon. Members will welcome the functions of the BSC as described, but sex and violence are not the main problems. They can be quantified to some degree and a line can be drawn, although, thank God, I shall not have to draw it. But one cannot draw a line through vacuity. The proposals in the White Paper will lead to vacuity in our television service.

Mr. Hurd: The proposals will lead to diversity because clearly that will be a requirement. My hon. Friend is over-pessimistic in assuming that, provided that the standards I have mentioned remain in place, which is our clear intention, the result will be vacuity. There will certainly be a much larger range of choice, but it will have to be genuine choice. It will not be possible simply to provide a range of choice between vacuities. That is incompatible with our proposals. Much of our work was designed precisely to avoid that result. When my hon. Friend studies what I have said, I hope that he will see that that result not only can but will be avoided if Parliament eventually establishes this new framework.

Mr. Brian Wilson (Cunninghame, North) rose—

Mr. Hurd: I should like to proceed because many wish to speak.

The sixth safeguard is the search for European agreement on standards. I have already touched on that with the BSC. We have been arguing for international agreement which, without smothering enterprise, can help transfrontier transmission to provide checks against unacceptable programme standards, particularly regarding taste and decency. My hon. Friend the Minister of State can say a bit more later about the draft Council of Europe convention which he has helped to negotiate. We are not yet home and dry, but after many hiccups I hope that we are in sight of concluding a convention which promotes these objectives without handicapping our broadcasters on something about which they are all concerned—advertising breaks.

Mr. John Browne (Winchester): Will my right hon. Friend give way on that specific point?

Mr. Hurd: I should rather proceed. I sense that I should conclude.

I am aware that in a speech which I hope has been decently concise I cannot cover all the ground of the White Paper. I apologise to hon. Members whose main interests lie in DBS, cable, MVDS or transmission. My hon. Friend the Minister of State will pick up any points made on those subjects. I shall simply mention one principle that we tried to include in the White Paper and which runs through several of these proposals. We believe that it should be possible to separate activities that are lumped together. Channel 4 has already shown how a broadcasting organisation can be a publishing house rather than a producer of programmes. In the process it gave the first important boost to independent producers, which our policies have reinforced. The same principle applies in the development of television and radio transmission

networks, cable and MVDS. Where enterprising individuals or companies believe that they can perform a service better than the present provider, they should not be excluded simply because they cannot, at the same time, provide another service which happens to be harnessed to the first.

Mr. John Browne: With regard to the European convention, my right hon. Friend mentioned that he wished to keep enterprise alive, yet, as drafted, article 16 of the convention will allow a receiving country to shut out the signals from a direct broadcast satellite if they do not conform to the rules in that particular receiving country. If that country does not have commercial television it means that it can cut out all incoming advertising in its own language. Is that really something that the British Government are prepared to sign and still say that it is going to fortify enterprise?

Mr. Hurd: I do not think that my hon. Friend is right in saying that that will be the effect, but as my hon. Friend the Minister of State has been directly and personally involved in that, perhaps he will be able to pick up the point when he replies.

I promised to say a word about radio; it would be wrong not to do so. Radio is achieving a strong revival. The days when it was treated as a poor, and perhaps even moribund, relation of television have long since gone. Under our proposal, the BBC will continue broadcasting Radios 1, 2, 3 and 4, and it is planning two other national networks. It is also completing its chain of local stations.

We propose to provide, for the first time, for national commercial radio. At the local level there could be scope in due course for several hundred new independent stations. Independent radio is booming. Its revenue rose 24 per cent. last year, making it the fastest-growing single medium. The IBA, while waiting for the new legislation, is giving community radio a very welcome early start—a fairly early start—with its scheme for some 20 incremental radio contracts under existing legislation.

Community radio—that is to say, radio stations catering for communities of interest or for small neighbourhoods—can do much, I believe, to help social cohesion and active citizenship. I believe that that section of the White Paper, which is less controversial than the others, is going to be a very important part of the whole picture.

I hope that what I have said shows that the White Paper proposals offer a reasonable and sensible means of arriving at the next staging post of broadcasting, of which I spoke. No one who actually studies the White Paper can really believe that we are proposing to allow British broadcasting to shrivel into empty trivialities. The fact is that in a free society, quality is not best preserved by restricting choice. Our proposals enlarge choice, where enlarged choice is possible, but at the same time ensure that it is a real choice and not just a choice between different brands of pap.

Although it is not a matter, thank God, for the Government, I am not personally enthusiastic about the idea of the British public actually watching more television, in terms of quantity, than it does at the moment. I think that we have just about reached the healthy limit in that regard. But, even with the relative success of broadcasting in this country, we all know that television viewing is too often a passive activity: the television set is

on. First, there is the subject of programme listings. The Government have said that they must pay attention to domestic copyright law and to international copyright obligations, and behind that smokescreen hides the BBC-ITV duopoly of programme listing. We have imposed on cable a "must carry" clause. Cable must carry ITV 1, ITV 2, BBC 1 and BBC 2, but it is not allowed in its own programme magazine to tell its potential viewers what they can watch. In December, the European Commission described that as an abuse of article 88 of the treaty of Rome. It is time that we opened the doors and let some fresh air into the dusty world of *Radio Times* and *TV Times*.

I hope that the BBC will be allowed to collect its own licence fee, and that the Government will address very seriously the possibility of failure to pay the fee becoming a civil debt and not a criminal offence. I do not believe that a magistrates court in the country will not heave a sigh of relief if that happens.

I believe that the franchise auction has been widely misunderstood and deliberately misrepresented. It is clear that, before any company is allowed into the auction rooms, it will have to make a commitment to regional programmes, high-quality news and current affairs programmes, and news coverage in the main viewing periods. There is an omission: local news is not mentioned specifically in the White Paper, and I hope that that will be rectified.

The right hon. Member for Morley and Leeds, South (Mr. Rees) said that in Yorkshire, as in all the regions, very few independent companies were making programmes. The reason is the historic agreements between the union to which I belong, the Association of Cinematograph, Television and Allied Technicians, and management. Those in-house agreements have kept the independent companies out, but happily the position is now changing, and I believe that those companies can thrive.

I should like a strong franchise charter and a free market in shares, but if we are wedded to the franchise auction I hope that we shall give the authority the right to refuse the highest bidder if—as Sir Alan Peacock suggested today—it is prepared to show public cause why it is doing so. I hope that my right hon. Friend will write that into the Bill. If he does so, he may save us much late at night grief next year.

My right hon. Friend the Member for Blackpool, South (Sir P. Blaker) referred to the separation between carrier and retailer in cable television. It looks as though we are about to impose on cable television the cumbersome machinery of licence per service. It is like saying that Sainsbury's can build shops but that it cannot sell own brand groceries in them. That does not make sense, and I gravely fear that it will deter investment.

The Government say that they will consider the ownership of local delivery operators and they are considering allowing non-EEC companies to invest. That finance is needed now. United States investors are queuing up. Please let them in. I hope that my right hon. Friend will reconsider what appears in the White Paper to be a decision not to allow MVDS to be used by cable companies to pull through cable.

The most important aspect of the White Paper—in a sense, it is an aspect by omission—concerns what the Select Committee saw as possibilities for cable systems to carry voice telephony, and for British Telecom and

Mercury to carry programmes. It also called for the introduction of closed user groups to allow for data services in broadcast television. The White Paper said:

"The Government will examine telecommunications matters, including the use of optical fibre as a means of transmission of entertainment as well as telephony and data ... at the time of the review of the telecommunications duopoly policy."

That, as we all know, is in November 1990. The White Paper continued:

"The Government proposes to put in place a contingent provision which would permit services to be offered without prejudice to decisions of the review."

That reflects the difficulty of having two cooks—the Home Office and the Department of Trade and Industry—in the same kitchen. The Select Committee said:

"It is vital that industry in the United Kingdom is well placed to take advantage of the development of digital television as it occurs."

The development of digital television transmission will be the most important factor in the development of communications in the 21st century. To prevent British Telecom from carrying entertainment, to prevent cable from carrying voice or to prevent the BBC from carrying user data is absolutely ridiculous. We are moving into a no-turnstile world. From the moment that we have digital television transmission, television entertainment and telephony and data will speak the same language. When that happens, the potential for home education, home medicine, home shopping, home entertainment and other inter-connected services will be tremendous.

The White Paper has created a framework that is all right for terrestrial broadcasting. It meets some of the needs for transfrontier satellite entertainment and news. However, the White Paper falls short of creating a framework for total communications systems in the 21st century. I urge the Government to reconsider their decision to introduce a television authority and instead to introduce a total telecommunications authority that would embrace every sector. If we had that, I believe that we could beat the world.

8.32 pm

Mrs. Margaret Ewing (Moray): I reassure the hon. Member for Thanet, North (Mr. Gale) that those who have expressed reservations about the contents of the White Paper have not done so because they are afraid of the changes in broadcasting but because they are concerned about the framework within which those changes will take place. Many views have been expressed in this House and in the other place and by many organisations who are about to submit a response to the White Paper, or who have already done so, about that framework.

Centralisation, control and the recognition of the needs of minority groups are key aspects that we must address if we are to ensure that broadcasting takes account of the needs of society. A number of hon. Members have already referred to centralisation. There is genuine concern about the definition of a region. Many Scottish Members are offended when Scotland is referred to as a region. Scotland is a nation. However, it contains regional variations, stretching from the Shetlands in the far north to the Borders in the south. It would be wrong to assume that the interests of all communities in Scotland are exactly the same.

[Mrs. Margaret Ewing]

Scotland is served by three ITV companies—Grampian, Scottish and Border. They reflect regional interests. There is deep concern that we may lose the opportunity to have a genuinely home-based industry in Scotland that would not just serve specialist needs and industries but would ensure that Scotland is outward looking. We want to be able to produce our own material that can be sold abroad and that can therefore become a dollar earner. It is interesting to note that Scottish Television's briefing refers to the fact that it has moved from almost total dependence on advertising revenue to obtaining income from the sale of programmes—£15 million in 1989 compared with £2 million in 1986. The money earned by our television companies can help to generate the income that is necessary to ensure that we meet regional needs. Scotland wants to speak to the rest of Britain, Europe and the world and not to be inward looking. We want to maintain our home-based industry.

I was disappointed when the Home Secretary referred only vaguely to the requirement to produce programmes within the regions. Channel 4 has 10 per cent. of Scottish viewers, but it gives us only 2 per cent. of the production. We are worried that that trend may continue because of the White Paper's proposals. There are many television production jobs in Scotland, but they are under threat. That applies, too, to production centres in Birmingham, Norwich, Manchester and elsewhere. If production centres are abolished, job opportunities will be lost. The talented men and women who work in production may find other opportunities in London or elsewhere. However, many of the people who are involved in network production at regional centres are committed to living and working there. They wish to stay in the regions. We do not want local skills to be lost. The ability to produce programmes locally means that Scottish actors are employed. That is important for repertory theatres. Local productions also employ musicians, which is important. It would be very sad if, at best, Scotland retained only one independent company and if, at worst, all control were to be removed from Scotland. I hope that the Home Office will respond positively to what I have said.

That leads me to one of the defined minority interests—the Gaelic language. I do not speak Gaelic but I regard it as part of my Scottish heritage. I do not want the language to die. The White Paper makes scant reference to the Gaelic language. In paragraph 6.37 the Government claim to recognise the importance of broadcasts in the Gaelic language and the importance of the Gaelic culture and its future development. However, all that the White Paper does is to offer the prospect of a new local franchise through cable or MVDS. It admits in paragraph 5.9 that within each area covered a substantial majority of households will be unable to receive the signal. In those areas where the Gaelic language is thriving—the Highland and Islands—we need desperately to ensure that people do not have to rely on cable or MVDS. The equipment required to receive the services would cost much more than the terrestrial channels that are referred to in paragraph 5.13. There is a great deal of contradiction in the Government's commitment to the Gaelic population. The Scottish National party looks with envy on S4C in Wales and at what that has achieved for the Welsh language. If

we had even a fraction of the money that is allocated to that channel, we could lay a sound foundation for our language and culture in Scotland.

Perhaps I could point the Minister to an article in *Scotland on Sunday* on 22 January. It deals with the problems of satellite television which has been suggested as a possible franchise area for the Gaelic language. The Sky television dishes of 60 cm in diameter are offered for sale at about £199 and will be suitable in Scotland as far north as Glasgow. Beyond that range a 75 cm dish would be needed and would cost £260. In Orkney and Shetland the dish required would probably cost about £350. I hope that we will have some discussion about how the Government see the Gaelic language being served in areas where it is live and vibrant.

At a recent meeting, the Scottish Association for the Deaf passed a unanimous resolution calling on the Government to introduce a clause to a broadcasting Bill "to make it mandatory and enforceable to provide services for Scottish viewers who are deaf or hard of hearing, providing them with equal opportunity of access to television on all Channels, whether cable, satellite or terrestrial."

The right hon. Member for Stoke-on-Trent, South (Mr. Ashley) dealt with the issue of the deaf. I hope that we will get a commitment from the Government, because if the highest bidder and the profit motive are to define our broadcasting services, minority interests, such as those of the deaf, may well be left out because it is costly to provide subtitles and sign language. Like many people, I should be upset if cost denied the deaf access to broadcasts.

What is meant by night hours? The White Paper seems to suggest the separation of night hours and a separate franchise. That means that we would lose the control or availability of minority programmes that can be recorded and used for education purposes, especially in our schools. Scottish Television is forward-looking and has included programmes on Scottish books, poetry, paintings, traditional music, Gaelic, minority sports and other subjects. Those programmes are used effectively by our schools. I hope that we will see keen recognition by the Government before the production of a Bill of the issue of universality of access and assurances that production will not be centralised and that full account will be taken of all minority interests in the United Kingdom. Those are vital matters.

8.42 pm

Mr. George Walden (Buckingham): Listening to the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley), I had a nasty turn because I found myself nodding at some of the things that he said. I am a little unhappy to see him in his place now as he may give me another nasty turn by nodding at some of the things that I say.

I am a relatively new Member, having been here just six years. During that time I have voted for most if not all of the Government's major legislation—for some with enthusiasm and for some with a twinge of doubt. But I feel neither doubt nor enthusiasm in relation to the White Paper. I cannot support it. It is usually thought that anyone who is critical of the Government's views on the BBC must be some sort of stooge of the comfortable duopoly. I do not suffer from that problem. If one judges the BBC by the volume of its own self-congratulation there is obviously something wrong with the organisation.

Clearly, much mediocrity masquerading as quality is put out by the BBC, so I do not start from the premise that everything is fine as it is.

My right hon. Friend the Home Secretary talked about the amount of viewing in Britain and I shall put that in perspective. We are talking about average viewing of 22 hours per week. In the case of children, the average may be higher—perhaps five hours per day. That means that children spend about as much time watching television as they spend in the classroom. We are not dealing with purely mechanistic factors, such as the raising or lowering of the tax rate or the management of water resources, but with something far more important—the minds of the population. What we do in this debate will have a significant impact in one way or another on the way in which people think, and especially on education.

I begin from the premise that there will be a decline in the standards of broadcasting almost—and this is important—irrespective of what the Government do. That is an important assumption on my part and it will not be shared by many hon. Members. Nevertheless, it is realistic and stems from a combination of "technological progress" and commercial imperatives. If we put those two together with all the bland and rather tinny assumptions in the White Paper we shall get an accelerated decline of television.

Important implications flow from that. The White Paper shows a total lack of social imagination, of what it means to be faced in one of our inner cities with a combination of low education provision and expectations and bad to mediocre teachers. On top of that, we propose to give people low expectations in broadcasting. Children who spend five hours a day in school with low expectations from teachers will go home to another five hours of low expectations from television. I hope that those expectations will not be lowered, but evidence from the Government suggests otherwise.

What sort of incentive is that for people trapped in cultural poverty to climb out of it? I see some Opposition Members nodding. People used to climb out of cultural poverty by way of local libraries but, sadly, those facilities no longer exist or are unused. The White Paper runs the risk of hastening the inevitable. Because of a whole series of circumstances too complicated to discuss in 10 minutes, decline is inevitable. I say that for technological and commercial reasons. That is sad. It will be a domino effect. Satellite broadcasting will put pressure on ITV and, through the rating system, that will put pressure on the BBC. The decline may be slow but it will come. There will be a downward spiral in standards. The pace may be sedate or almost imperceptible, but standards will go down.

If we start from that realistic premise, certain conclusions follow. If we have such a decline in standards—I am willing to bet that we shall—we must think radically. The White Paper pretends to be radical, but in fact it is conventional. It thinks conventionally about market forces, it is simple-minded and goes with the air of the time. It is not really thinking at all. One cannot compare market forces in the car industry and in shipbuilding, which we all favour—God knows we make so many speeches about it that I bore myself silly with them—with market forces in broadcasting. We cannot make a simple-minded transfer from industrial considerations to broadcasting. We cannot have an indiscriminate application of the idea.

There is a great danger in this country that when we get an idea we go on and on with it. We did that with egalitarianism and caused the damage that we now all know about. Now we have a new idea called market forces, and like children with a pot of paint we daub it all over the damned place. If we do that in broadcasting or in education, we shall cause infinite damage to the people least well placed to support it.

If anyone feels tempted, as I suspect that my right hon. Friend the Home Secretary may be, to think that this is an elitist or patronising approach, he should bear in mind that real elitism is a good thing. The worst sort of elitism and the most patronising attitude is taken by those who are well educated and well placed in society, but who feel that they can swill cultural bilgewater through the homes of those less educated than they are, which will prevent those people from making their way up the social ladder. I have no time for that form of elitism, which seems to dominate the thinking, or non-thinking behind this White Paper.

It is not good enough to stand here and say that things will get worse and that there is nothing that we can do about it. We need radical thinking, so in the few minutes that I have left I will set out what I would do. The Government should think about this. Unfortunately, they will not, but I wish that they would.

We should think about the future role of the BBC. The answer to this difficult problem is to say to the BBC, "Times are changing, the whole thing is going to wind down and you will have to wind down with it almost irrespective of what we do, so we must do everything possible not just to preserve but to improve your public service broadcasting." In the real world, that means stopping competition for audiences. The BBC should give up its pop function. There is no reason why old ladies and gentlemen should pay through the licence fee for pop on television. That pop will be provided adequately by the commercial sector—Sky and the rest—where there will be oodles of it. The BBC should not retreat, but retrench and concentrate on public service broadcasting, raising its standards and going for the biggest market that it can get, but not through the ratings game.

Such a policy would give people real choice because they would be able to choose between old-fashioned British quality at its best—although much improved by these means—or the satellite stuff, which we cannot stop unless we import some of the old disused Soviet jammers, which I do not recommend. We cannot stop it coming down from the sky. The heavens will open, and the drivel will pour forth. Mr. Murdoch has told us that his news programmes will be pitched at the level of a 10-year-old Martian. That is where we shall start. If people want to watch that, they will be able to do so. There will also be choice through the commercial terrestrial sector.

I am suggesting that quality be included in this choice, quality for ordinary people—the sort of people who, 30 or 50 years ago had the chance to go to a grammar school, but who now do not have that chance.

Dame Elaine Kelleff-Bowman (Lancaster): Yes they do.

Mr. Walden: There are only 130 or so grammar schools left. Fifty years ago, people had the chance to climb out of the Welsh valleys because there were libraries there, many of which have now been sold off. Children in such areas now spend five hours a day watching television.

[Mr. Walden]

I could say a great deal more, but I will finish on one important point. After all the struggles to improve our economic and material welfare, in 10 years' time people may look back and say that while the standard of living has improved the cultural level is lower. I do not care if that sounds pompous, I do not care. I see hon. Members nodding. They know what I mean. There may be a sort of "Clockwork Orange" society, which will have been brought about unnecessarily by the Government. It would be a dismal comment on a liberal Home Secretary to be seen in 10 years' time as the man who introduced this tawdry debasement of our broadcasting system, with all the impact that it may have on social values of every kind.

8.53 pm

Mr. Norman Buchan (Paisley, South): I have waited all day, and perhaps for the past three years, to hear a speech like that given by the hon. Member for Buckingham (Mr. Walden). It should be both applauded and burned in gold letters on the Government Front Bench. We are faced with a tawdry White Paper reflecting a seriously dangerous situation, and the hon. Member has said what many of us have been feeling for a long time but have often had to couch in a partisan fashion. He has managed to broaden it out by removing himself from a politically partisan attitude.

I prepared the Labour party evidence given to the Peacock committee, so I have lived with the Peacock report, and all the controversy and discussions after its publication, for the past three years. Sometimes, as we ventured on to these arguments, we were seen as attacking the policy, merely because it was "capitalist", but the truth is that the problem is a great deal more universal. Major human problems are involved and this tawdry White Paper shows that we have failed to understand, to take on board and to learn from one of the most important advances in the expanding of the human experience.

It is rather as if somebody had invented writing and then said, "How can we sell off the letter A?", or somebody had invented the alphabet and said, "How can we make money out of it?" The purpose of the White Paper concerns the messenger rather than the message. What techniques shall we use? Is it to be cable or satellite? What is the profit direction? It is almost as if we sat down and asked ourselves how we can produce a form of television in which Murdoch and Murdochism can succeed. Partly, it is because the Tory party detests and even fears public service broadcasting as it detests, distrusts and fears the public sector generally. That is the basis of its attitude.

These issues are too important for narrow market concepts. The Government had a glorious chance with the White Paper, and they have blown it. They have failed to understand what we are dealing with. They have ushered in the crippling exigencies of the market economy as if this is the solution to the techniques that we have been handed for expanding human experiences, for communicating with one another and for teaching. We never thought when we started schools that they would be narrowed and crippled or that facilities would always have to be paid for.

The problem with subscription is not merely the payment aspect. The Government have got the payment aspect wrong. Ironically, subscription arose because Government supporters wanted free television and so

suggested getting rid of the licence. I agree that we should get rid of the licence. Television, like the alphabet and writing, should be free. It should be paid for out of national resources. Every time I say this I am accused of seeking to put television under the control of Government by allowing the money for it to come out of taxation, but that is not so. Education is free in that sense, but it is paid for from national resources.

Ironically, those who have said that we should have free television, by which they have meant advertising revenue supporting television, are now pushing subscription. I was looking at some of the figures for subscription. We are told that specialist services such as children's programmes, sports, film coverage and minority languages, could be privatised for no more than between £10 and £20 a month. But that is between double and four times the present licence fee. So the irony is that subscription will mean that television will be even dearer. The hon. Member for Buckingham understands better than most hon. Members that that is not the problem. Thank heavens he spoke, because he saved the soul of the Conservative party.

The problem with subscription television is that we cannot through that expand people's understanding and experience. If a television company had proposed 10 years ago subscription broadcasting for a programme showing beetles on the water, insects in British grasses or bats in caves, no one would have subscribed to see such a programme. But now David Attenborough and David Bellamy have created mass audiences for nature programmes. The point is that as soon as we remove the possibility of people viewing something accidentally or merely on a whim, we compress people; we shove kids into a narrow cell and say, "You will stay there." It is only when there is straightforward universality of access that viewing such programmes can be triggered.

For none of us knows how young people's ideas are triggered. It is the same as charging an entrance fee to museums and art galleries. I remember Lord Eccles—Lord Shekels as Lord Crawford used to call him—complaining that I would be happy for people simply to go into art galleries to get out of the rain. "Too bloody true," I said, "I cannot think of any better place for people to shelter." As soon as there are charges, only those who are already educated towards it and who understand art go into galleries, and the people who have not been introduced to art are not touched by it accidentally. Therefore, we are compressing human experience with the very tool that could enlarge and expand that experience.

Peacock understood that. I love Alan Peacock dearly, but I have to say that although he recognised that his proposals would have that effect he still went ahead with his report. He thought that because we could not control satellites we had to be back, close our eyes and think of England. He made clear what he expected to be missing from the generality of television programmes under his committee's proposals. He expected that certain things would not happen unless there were special precautions. The committee suggested that the omissions would be covered by four key words—knowledge, culture, criticism and experiment. Therefore the committee had to create a public patronage sector. One reason why Peacock objects to the Government White Paper is because this minority ghetto patronage is missing. The Peacock committee said:

"(i) There should be news, current affairs, documentaries, programmes about science, nature and other parts of the world, as well as avowedly educational



With the Compliments

of the

British Broadcasting Corporation

Margaret Douglas

Chief Political Adviser

RA Bostwick

BRIEFING ON THE BBC RESPONSE TO
THE WHITE PAPER ON BROADCASTING

The White Paper marks the beginning of a period of radical change in British broadcasting. In ten years' time the scene will be very different with many new services and new combinations of funding. The BBC will need to adapt within this more competitive environment. But we are also the fixed point in an expanding market and we are confident of what that should mean.

ROLE OF THE BBC

The BBC should offer :-

coverage of national events - ceremonial, political, artistic and sporting;

reliable, comprehensive and independent news, information and political coverage, at network regional and local level;

popular entertainment of a high standard in drama, comedy, music and speech;

documentary, cultural and minority interest programmes of range and depth;

significant coverage of, as well as support for, achievement in music, drama and the arts;

programmes at network, regional and local level, informed by the cultures, interests and perceptions of a diverse nation;

dedicated services for Scotland, Wales and Northern Ireland and for the English regions;

services for schools, continuing education and for Open University students;

services for minority or disadvantaged groups, across a broad range of needs;

complementary services which ensure that a genuine range of programmes are scheduled on television in prime time and across the radio networks.

We believe it is essential in a changing world that everyone - wherever they live in the United Kingdom and whatever their income - continues to have access to this range of programmes at the lowest possible cost. The changes the White Paper proposes will be successful if they add to the choice available. One test of that will be whether sufficient money flows into British programme making which is a successful industry and one with a world reputation.

In the future the BBC's role in providing quality programmes right across the range will be just as important in people's lives. The licence fee will still be a practical and cost-effective way of paying for the BBC services that people now value. New sources of funding will have become extremely important.

The BBC will seize new opportunities to supplement the licence fee income - from the sale of its programmes and its programme services, from the provision of data and other transmission services and from downloading and subscription income.

SUBSCRIPTION

The White Paper raises the question of subscription. We believe that subscription may, in the long run, make a significant contribution to the funding of the BBC, but we do not see subscription services as a substitute for BBC-1 and BBC-2. These are viewed by well over 90% of the population each week and are provided for £1 per household. Overseas experience of subscription so far suggests that successful channels usually rely on some form of premium material - films at the moment - and tend to establish themselves at a take-up of some 20% of the audience. The cost of 2 subscription services so far announced in the U.K. - £12 a month - is twice the cost of the entire BBC package of BBC-1 and BBC-2 and all radio services.

What the BBC plans to do is to develop subscription services to complement and supplement licence-funded services. The BBC has pioneered subscription services in Britain with an experimental service, designed in conjunction with British Medical TV, which overnight records automatically on VCRs medical information for doctors. The income from this service is reinvested in programmes for the general audience. The BBC is in discussion with other partners and plans to develop a range of subscription services during the night hours. Proposals include a BBC skills initiative, geared to 1992, undertaken with partners in business and industry. As downloading technology becomes widely available, minority markets will be developed for programme services with a wider entertainment appeal. The BBC has the biggest programme archive in the world and, for example a BBC Nature Club could draw on these and other specialist material.

In order to proceed with its business plans, the BBC now seeks general permission to encrypt services for subscribers during the night hours on both channels. The proposal to remove our access to one set of night hours is at odds with the White Paper's emphasis on the potential of subscription as a source of income. We shall be seeking further discussions with the Home Secretary.

If our experience with overnight pay service is successful, the most constructive next stage is likely to be for the BBC to offer a premium service on new delivery systems whether satellite, cable or MVDS. Subscription services which genuinely complement what is already available and don't impoverish the networks can benefit both subscribers and licence payers. This strategy would also enable the BBC to maintain its investment in Britain's production industry.

High Definition TV

We believe that high definition television may be the extra dimension which would enable a mass subscription market for mixed programming to take off.

High definition offers a markedly improved television picture and a much larger cinema-shaped screen. The BBC endorsed the Home Affairs Committee recommendation and is making a major commitment to HDTV

through the Eureka project, which would ensure a European rather than a Japanese or American standard, and could ensure new markets for European television manufacturers.

If Eureka prospers, a market for HDTV may begin to develop in the mid-90s. The BBC intends to explore these prospects energetically.

RADIO

The BBC will maintain its commitment to keep its radio services healthy and flourishing. Adequate and reliable funding is essential to achieve this. At a current cost of thirty pence a week per household for all the BBC's radio services, it does not make commercial sense to set up any system to charge separately for them.

FINANCE

The review of the licence fee in 1991 will occur at an early point in the development of subscription services in the UK. Reliable independent assessment of its likely development will be required before decisions are made about the level of the licence fee. There should be a further reassessment, in the light of market developments, in 1996.

LICENCE FEE COLLECTION

The BBC will take over responsibility for collecting the licence fee. A new system of direct debit, to reduce the burden of the annual fee, is being set up and will be available from Autumn 1989. We have commissioned a marketing study from Lowe Bell Communications to look at other easy payment systems.

MODERN MANAGEMENT

The BBC will continue to increase efficiency, cut overheads and concentrate its resources on programme improvements. It will reduce permanent staff and rely increasingly on the provision of services by the private sector. These are considerable challenges for management and the BBC will ensure that they are effectively trained and equipped. The BBC will introduce a system of performance-related pay. A slimmer, more efficient and entrepreneurial BBC will result.

TRANSMISSION

The BBC welcomes the White Paper commitment to the reliability, technical quality and cost effectiveness of radio and television transmission. High quality reception must be available to everyone, wherever they live in the UK. And it is important for the World Service to have reliable and cost-effective transmission. The BBC wishes to create a more competitive transmission system and believes that fair competition, a workable structure and the avoidance of monopoly are more important than questions of ownership.

MUST CARRY

The cornerstone remit in the White Paper makes it essential to require cable operators and MVDS to carry BBC networks.

SPONSORSHIP

The BBC has introduced new arrangements for the coverage of sponsored artistic events. There is scope for further development in sponsorship arrangements to facilitate the coverage of sporting and artistic events.

LISTED EVENTS

The BBC believes that the main events in the UK sporting calendar should continue to be available to networks serving the national audience.

ACCOUNTABILITY AND THE BBC'S ADVISORY STRUCTURE

The Board of Governors has initiated a thorough review of the advisory structure. The BBC is determined to continue to strengthen its direct accountability to the licence payers and will continue to conduct sophisticated audience research and monitoring.

6th February, 1989
MED/hmt

KEY POINTS OF BBC RESPONSE

The BBC

- * Welcomes the extra choice for viewers and listeners that an expansion of the broadcasting environment will produce.
- * Hopes that this expansion will bring competition across the whole range of programmes for quality as well as popularity.
- * Argues that the new framework should encourage the British programme production industry.
- * Welcomes confirmation of the BBC's 'cornerstone' role in this environment.
- * Argues that the licence fee is an effective method of financing a range of programmes on television and radio at low cost to the whole country.
- * Will work for greater efficiency, a highly-trained and motivated management, and will plough back all savings into programmes.
- * Will broaden its revenue base through enhanced programme sales; the provision of data and transmission services; and the development of complementary subscription services.
- * Will build on the experience of the overnight service presently downloaded to doctors and offer new information services for professionals and other groups overnight.
- * Will introduce a Nature Club and other experimental programme packages of wide appeal based on the BBC's large archive - to be offered overnight on a subscription basis.

- * Argues that the BBC should keep both television channels to gain experience of subscription and to continue to programme the existing, occasional services e.g. Elections and live sport.
- * Points out that international experience of whole channels financed by subscription is limited.
- * Suggests that a service of BBC programmes on High Definition television, which offers greatly enhanced picture quality, may be possible, in the mid-nineties, and could be introduced as a subscription service.
- * Confirms the commitment to keep radio healthy and flourishing and to develop the FM network.
- * Proposes an independent assessment of the likely development of subscription before establishing the level of the licence fee in 1991.
- * Confirms that the BBC will take over responsibility for collecting the licence fee and will introduce more easy payment schemes.
- * Argues that transmission quality and cost effectiveness is important to BBC Television, Radio and World Services and urges that real competition and no monopoly should take priority.
- * Argues that cable services should continue to be obliged to offer BBC channels.
- * Urges that major national sporting events should continue to be available to the networks.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

2 February 1989

Mopm

Dear Mr Maclean

DEBATE ON THE BROADCASTING WHITE PAPER

I am writing to give our suggested text for the motion on the Broadcasting White Paper to be proposed by the Home Secretary on Wednesday 8 February.

The motion reads as follows:

"That this House takes note of the White Paper 'Broadcasting in the '90s: Competition, Choice and Quality' (Cm 517) and endorses the Government's proposals for the future of broadcasting contained therein."

This should lead to a division to approve the White Paper. I should be grateful if, subject to any amendments which you may wish to put forward, your office would make the necessary arrangements to have the motion placed on the Order Paper.

I am copying this letter to Andy Bearpark (No 10), Stephen Catlen (Lord President's Office) and Neil Thornton (DTI).

*Yours sincerely
Catherine Bannister*

MISS C J BANNISTER

Murdo Maclean, Esq
Private Secretary to
the Chief Whip

CONFIDENTIAL



file
12
10
91

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

18 January, 1989.

MEETING WITH THE CHAIRMAN OF THE IBA

The Prime Minister saw George Russell yesterday evening. Bernard Ingham has done the attached note of the discussion which you ought to see, particularly in view of the request for action on the possible sale of the IBA transmission system and on the ITC right of preview.

I should be grateful if you could ensure that this letter is copied outside your office only to those with a strict operational need to know.

I am copying this letter together with its enclosure to Neil Thornton (Department of Trade and Industry).

Dominic Morris

Philip Mawer, Esq.,
Home Office.

CONFIDENTIAL

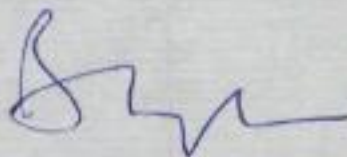
ls

cc. Professor Griffiths

MR MORRIS

MEETING WITH GEORGE RUSSELL, IBA

I have done a note for the record on the Prime Minister's meeting with the above this evening. You may care to send it to the appropriate Departments.

A handwritten signature in blue ink, appearing to read 'Bernard Ingham', written in a cursive style.

BERNARD INGHAM
17 January 1989

CONFIDENTIAL

NOTE FOR THE RECORD

The Prime Minister this evening met for some 45 minutes George Russell, the new chairman of the Independent Broadcasting Authority. Professor Brian Griffiths and I were also present.

The meeting was conducted at a very brisk, executive pace and the Prime Minister showed a lively and sympathetic interest in Mr Russell's ideas. She said she was delighted he had accepted the IBA chairmanship.

Mr Russell thanked the Prime Minister for meeting him so early in his chairmanship of the IBA. He wanted to report on how he saw things in the light of the Broadcasting White Paper and to get a steer on a number of ideas on which he was working.

He explained that his business philosophy had always been to look at a situation positively and see what could be made of it. He saw the White Paper as a catalyst for change. The competitive environment was to be welcomed. He was now trying to generate a positive approach to the future in commercial television and he had persuaded a lot of inventive people to apply their minds to working out a way forward.

He had persuaded the IBA and the Cable Authority that he was there to take them into the Independent Television Commission (ITC). Morale in the IBA had risen and they were considering how to make the White Paper work. It was important to analyse its implications as a whole in order to ensure that they concentrated on serious and real problems.

Mr Russell then turned to a number of issues. The discussion is summarised below point by point, concluding with the Prime Minister's observations or the action she asked to be set in hand.

CONFIDENTIAL

Channel 4

Mr Russell said that he would like to sell off the IBA transmission system as soon as possible rather than in 1992 in order to provide a contingency fund for Channel 4, operating under the umbrella of the IBA, so that it could absorb a bad year without recourse to public funds. He envisaged a moratorium on the repayment of the capital to the Treasury. In the interim the proceeds from the investment and any residue after repayment of capital would form the contingency fund. He believed that a major engineering company would be interested in the purchase and that their acquisition would lead to better provision for R&D.

Some 200 redundancies could result from the sale of the transmission system and it would be better to resolve the employees' position sooner rather than later. Work was also going ahead on the idea of Channel 4 retaining a national sales force but employing the regional companies to perform the function locally on commission.

Mr Russell acknowledged that the IBA and BBC transmission systems were intertwined and noted that the BBC system could not be sold before 1996. He was however convinced that they should be separated to minimise the risk of interruption by industrial action. The Prime Minister expressed sympathy for this point of view.

Note: The Prime Minister felt the early sale of the IBA transmission system should be investigated.

Right of preview

Mr Russell said that the IBA had the right of preview and this should be carried through to the ITC. Quite apart from this being an effective blocking mechanism, he felt it would be much better for the companies to know that the ITC was keeping a watchful eye over their programmes. It would be easier to show them the yellow card if they had previously had private warnings.

Note: The Prime Minister expressed the view that it would be "absurd" if the ITC did not have the right of preview.

Period of Stability

Mr Russell said that he would probably recommend that after the new franchises had been let and "in exchange for the levy" there should be a 2-3 year period of stability in which the companies could settle down without fear of predators. He advised a period of two years but in response to the Prime Minister's suggestion that it should be longer he put the period at a maximum of 3 years.

Note: The Prime Minister felt that the new system should have time to settle down so that the companies could show what they were made of.

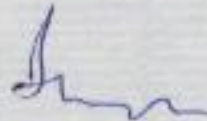
ITC Discretion

Mr Russell said that the real talking point in television over the next 12 months would be the extent to which the ITC should exercise discretion in evaluating tenders for franchises. He had no difficulties with the system of tendering, but in the end the ITC would have to exercise some judgment in awarding franchises. Some existing TV companies - he instanced Central and TVS - had by any standards earned the right to continue but could fail to win a franchise if they were outbid. But should the ITC in those circumstances take account solely of the highest bid or should it satisfy itself that the highest bidder had the necessary resources to make a success of its franchise? If so, this would need to be reflected in the legislation.

Note: The Prime Minister asked Mr Russell to provide a note on what, in his view, needed to be included in a Broadcasting Bill to deal with this issue.

For the rest, Mr Russell said that he believed he could see his way through to 1992. He would not however be able to secure agreement among 15 individual companies. This was not physically possible. He had recently had to insist, in the face of strong opposition, that they should advertise Sky and BSB as services as distinct from their detailed programming.

There was also a possible difficulty for some companies in tendering for a new franchise in that they might legally be required to secure the approval of their bid from an annual general meeting of the company. This would of course render their position impossible and make nonsense of confidential bidding. More work needed to be done on this and the Prime Minister asked to be kept informed.



BERNARD INGHAM
January 18, 1989



Foreign and Commonwealth Office

London SW1A 2AH

29 December 1988

CCFO

Abpm

Dear Catherine,

The Foreign Secretary has seen the Home Secretary's letter of ¹⁹ December to the Secretary of State for Trade and Industry about privatisation of the broadcasting transmission system. He is content for the proposed terms of reference for the study to include specific reference to the BBC's external services and for the study to proceed as proposed.

I am copying this letter to the Private Secretaries to the Prime Minister, other Members of MISC 128 and to Sir Robin Butler.

Yours sincerely,

(L Parker)
Private Secretary

Miss Catherine Bannister
PS/Home Secretary

BROADCASTING : BBC Finance Pt 7.



11-11-71
11-11-71

dti

the department for Enterprise

CC/PL

CONFIDENTIAL

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

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

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

NBPM

PLC

2/12

Direct line 215 5422
Our ref PS3BVC
Your ref
Date 21 December 1988

Dear Home Secretary, attached

Thank you for your letter of 19 December proposing that consultants should be commissioned to examine how the radio and television transmission system might be privatised.

I agree that this work is necessary before we can reach definite decisions in the summer on the network's eventual future and I agree with the terms of reference. I do feel however that the consultant should be asked to consider the effect of foreseeable technological developments (such as HDTV or improvements in bandwidth efficiency) on the network, so that we do not find that a particular privatisation option restricts the network's ability to adapt to the changing needs of a developing market. I would not propose that this should form a major part of the study and I am content that it should be covered in the briefing given to the successful consultants rather than in the terms of reference.

I am also content with the wording of the press notice you propose and in view of DTI's particular interest in the transmission system, I am prepared to contribute towards the cost of the study: our officials will be able to settle the details.

the
Enterprise
Initiative

dti

the department for Enterprise

CONFIDENTIAL

I am copying this letter to the Prime Minister, to the Foreign and Commonwealth Secretary, other members of MISC 128 and to Sir Robin Butler.

Yours sincerely

N.R. Bl

(Approved by the Secretary of State
and signed in his absence)


the
Enterprise
Initiative



me from
all

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 December 1988

The Prime Minister has seen the Home Secretary's letter of 19 December to the Secretary of State for Trade and Industry about privatisation of the transmission system. She has no comments on the proposed terms of reference for the study, and is content for it to proceed.

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

P. A. Bearpark

Miss Catherine Bannister,
Home Office.

CONFIDENTIAL

str



CEPU

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

21 December 1988

Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9BW

NBR

*REC 6
22/12*

Dear Secretary of State,

DBS LEVY

flap

Thank you for your letter of 6 December. I have also seen David Young's letter of 12 December.

I am content with the draft letter to BSB, subject to the amendments suggested by David. DBS will require a lot of fixed investment and we have agreed that the levy should not apply at a positive rate until the cost of that investment has been recovered. However once the fixed costs have been recovered, satellite TV may well be highly profitable. And by then it will be just another means of delivering programmes to the home, in direct competition with terrestrial television. In those circumstances I would expect the levy to apply to BSB in the same way as it applies to terrestrial TV.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Yours sincerely,

Muir Wallace

pp NIGEL LAWSON

(Approved by the Chancellor and signed in his absence.)

BROADCASTING: Finances
M 7



PRIME MINISTER

CF. I think I am
awaiting comments on this from
other departments
MSE
3/1/89

20 December 1988

PRIVATISATION OF THE TRANSMISSION SYSTEM

In the White Paper on broadcasting, we made a pledge to privatise the transmission system: both the existing system and the options for privatisation are complex subjects.

Douglas Hurd suggests asking consultants to write a report advising the government on options for privatisation.

In view of the complexity of the subject and the need for outside advice, the idea to employing consultants is a sound one. The terms of reference seem fine.

Recommendation

Agree to the Home Secretary's proposal to commission consultants to prepare a paper on options for privatisation.

Brian Griffiths

BRIAN GRIFFITHS

GCPH



QUEEN ANNE'S GATE LONDON SW1H 9AT

19 December 1988

Prime Minister²

Dear David,

PRIVATISATION OF THE TRANSMISSION SYSTEM

I am writing to ask for your agreement, and that of other colleagues, to the setting up of a quick study to advise us on the best way of taking forward the objective, stated in the Broadcasting White Paper, of privatising the television and radio transmission system.

You will recall that the White Paper said that our objective was to move towards a privatised, regionally based transmission system designed to promote competition. Given the entwinement of the IBA and BBC systems, this objective could be fully realised only when the BBC loses its transmission responsibility - either when the Charter expires at the end of 1996, or sooner, if the BBC agrees to divest itself of its responsibilities before then. In the meantime the White Paper proposed that the ITC should take over the IBA's transmission infrastructure but arrange for the system to be operated by private sector contractors; and that the BBC should be encouraged to contract out.

We need to reach firm, detailed decisions about the arrangements for the interim period by June of next year, in order to enable the necessary provisions for next session's legislation to be prepared. But I do not think we can sensibly take decisions about the interim period until we have a clearer idea of what a privatised transmission system would look like. Otherwise we run the risk of reaching decisions about the short term which could make it harder to achieve the best long term arrangements.

The work done by officials on privatisation since the publication of the White Paper has indicated the need for expert engineering and economic advice before we can take well founded decisions. The present transmission system is highly effective. We must ensure that the arrangements which we eventually decide upon for privatising it retain its present effectiveness, while also meeting the objectives set out in the White Paper and making commercial sense. Not all the expertise needed is readily available within Whitehall, and I therefore propose that we should commission consultants to undertake a rapid study. I attach terms of reference for the proposed study, which I understand have been agreed at official level. The study would start next month and be completed by around the beginning of April. I also attach a press notice which would be issued when the invitations to tender were sent out.

The Rt Hon Lord Young of Graffham

/over....

The White Paper did not specifically mention the transmission of the BBC's external services. Although privatisation of this part of the BBC's transmission system would raise particular issues which would need to be carefully considered, I think it would be useful if the consultants looked at the possibilities here too. I therefore propose, if Geoffrey Howe agrees, that the terms of reference for the study should explicitly refer to the external services.

We can consider when the study is complete whether all or part of it should be published. If we do decide on publication, it will save time and expense if the report is prepared initially in a form suitable for publication; and the terms of reference are framed accordingly.

In order to meet the timetable I have sketched out I should be grateful for agreement to the study and to the proposed terms of reference by 23 December at the latest.

I am copying this letter to the Prime Minister, to the Foreign & Commonwealth Secretary, other members of MISC 128 and to Sir Robin Butler.

Yours,

Douglas.

TERMS OF REFERENCE FOR A STUDY CONTRACT

The Privatisation of the IBA and BBC television and radio transmission networks

The study should describe the main features of the television and radio transmission networks presently owned and operated by the BBC and the IBA (including the BBC's external services network); identify and examine options for privatising these networks; and recommend a favoured option or options, including a timescale for implementation. If appropriate, different options may be recommended for different networks.

2. The recommendations should accord with the following criteria:
 - a. they should be consistent with the Government's objectives as outlined in Chapter 9 of the Broadcasting White Paper ('Broadcasting in the 90s: Competition, choice and quality'). In particular, the options recommended should:
 - i. if feasible, allow for separate operators in different regions (though any additional costs which would be involved in a regional structure should be identified);
 - ii. minimise any monopolistic elements, and allow scope for competition at as many levels as possible; and
 - iii. maximise the private sector content.
 - b. they should be technically viable. In particular, the options recommended should:

i. enable existing services to achieve the same degree of coverage as at present, and enable Channel 5 (and 6 if it is authorised) to achieve as much coverage as reasonably practicable;

ii. allow the quality of the signals presently transmitted to be maintained;

iii. not require the mass acquisition of new reception equipment; and

iv. be feasible in radio regulatory and frequency planning terms.

c. they should be commercially viable;

d. they should enable the maximum use to be made of the existing transmission infrastructure for broadcasting and other purposes, while minimising disruption to other users of the sites; and

e. they should maximise the yield from the sale of the assets, consistent with (a)-(d) above.

4. To the extent that the recommended options do not provide scope for competition the study should recommend what form of regulation, if any, is needed to avoid abuses. Any mechanism recommended should be the minimum consistent with effective regulation. The study should also recommend whether any technical regulation is necessary, taking account of paragraph 3(b) above.

5. The study should identify any differences in cost in providing a transmission service to different parts of the country under the recommended option(s).

6. The study should identify the consequences of the BBC continuing to own and operate its network until the end of 1996 on the timing, technical and commercial viability and cost of any recommended options; and the scope for interim measures in these circumstances.

7. The study should take account of the other proposals in the White Paper, in particular those relating to Channel 5 (and Channel 6 if the Government decides to authorise it), local services and radio. It should also take into account any lessons from other privatisations, and the organisation of TV and radio transmission in other countries.

8. The study should be completed within ten weeks. The report should, as far as possible, be prepared in a form suitable for publication.

9. The following bodies should be ^{among those} consulted: the BBC, the IBA, Home Office, DTI, FCO, OFTEL, ITVA, AIRC and BT.

Home Office
December 1988

·wk>J/Nt/Tms/Ref/Sdy/Ctct

DRAFT PRESS NOTICE

STUDY ON PRIVATISATION OF BROADCASTING TRANSMISSION SYSTEM

The Home Office and the Department of Trade and Industry announced today ([] January 1989) that the Government had decided to commission a study into the options for privatising the television and radio transmission networks currently owned and operated by the BBC and the IBA. The study follows the recent White Paper on broadcasting ('Broadcasting in the '90s: Competition, Choice and Quality') which said that the Government's objective was to move the transmission system progressively into the private sector. The purpose of the study will be to identify options for privatising the transmission system which will ensure that high technical standards are maintained, and introduce greater competition into the transmission sector.

Notes to Editors

1. The White Paper (paragraph 9.2) said that the Government believed that the best arrangement in due course would be a regionally based, privatised transmission system designed to promote competition, while containing certain common carrier obligations. It noted that the route towards this objective was complicated by the way in which the IBA's system is entwined with that of the BBC, and by the fact that the BBC's transmission responsibilities are rooted in its Charter which lasts until the end of 1996. It proposed different arrangements for the transitional period before a privatised system was in place. The study will look ahead to the point when privatisation of the system can be implemented.

2. Several consultancy organisations have been invited to submit proposals for the study. It is expected to start later this month and to take about ten weeks.

<wk>J/Dr/Pss/Ntce/Sdy/Pvtn/Bg/Tsmn/Stm



Me Rm

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

16 December 1988

MEETING WITH GEORGE RUSSELL

BT
The Prime Minister has agreed to meet Mr. George Russell, Chairman Designate of the IBA. This has been arranged for 5pm on 17 January. Please could you arrange for a short brief to be prepared, which should reach me by midday on Friday 13 January. This should take account of any points which arise at the meeting which I understand he is having with the Home Secretary on 10 January.

Andrew Turnbull

Philip Mawer, Esq.,
Home Office.

DTS

C.C.P.



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

14 December 1988

New Gareth

CJD 15/vii

COUNCIL OF EUROPE DRAFT CONVENTION ON BROADCASTING

WITH REQUEST IF REQUIRED

Thank you for your letter of 7 December about the concern expressed to DTI officials by the Incorporated Society of British Advertisers over the provisions in Article 14 of the draft Convention.

Before tabling the formula in Article 14 (which was achieved only after long and difficult negotiations) at Stockholm on 23-24 November, we consulted the relevant British interests about it, including ISBA. The general reaction was that, although they would have preferred a more general and flexible text, they conceded that they could live with the provisions of Article 14 which we had negotiated.

We ourselves would have preferred a more general text if this had been attainable. But we have had to recognise that if agreement on a Convention was to be reached at the Ministerial Conference in Stockholm, as was judged desirable, some flexibility on our part was necessary. We therefore sought to find a compromise which was likely to be acceptable to other countries while not causing undue difficulties for our own broadcasters.

Consequently, given the general acceptance by British interests of the text in Article 14, we tabled it in Stockholm to try at last to resolve the issue of advertising breaks and thereby help towards completion of the draft Convention as a whole. There was in any case no realistic prospect that better terms were to be had. The Conference itself recognised that decisions had to be taken quickly and compromises, where necessary, found.

As you know, the Conference achieved a significant breakthrough on the Convention, which now seems likely to be opened for signature early next year. If, however, difficulties should arise and the provisions in the Convention are re-opened for further negotiation, we shall take into account the points made by ISBA and, as ever, work towards a satisfactory outcome for British interests.

Yours
Catherine

MISS C J BANNISTER

PRIME MINISTER

cc Mr. Ingham

Cite SJ

Sir Alastair Burnet has approached us requesting a meeting with you for Mr. George Russell, Chairman Designate of the IBA. We have suggested that Mr. Russell should first see the Home Secretary. This has been arranged for 10 January.

Content to see Mr. Russell approximately one week later?

ANDREW TURNBULL

13 December 1988



Home Office

NEWS RELEASE

50 Queen Anne's Gate London SW1H 9AT
(Night line 01-273 4595)

Contact Number:

13 December 1988

01-273 4640

INDEPENDENT TELEVISION LEVY 1990-1992

The Home Secretary, the Rt Hon Douglas Hurd CBE MP, today announced that the independent television levy for 1990 to 1992 will be raised both from the net advertising revenue and from the profits of the independent television contracts. The Government intends to raise broadly what the arrangements before 1986 would have produced, with about three-quarters coming from net advertising revenue and the remainder from profits. The aim is to encourage contractors to be cost conscious and ensure an adequate return for a scarce national resource. Precise details will be published in the spring of 1989.

In reply to a written Parliamentary question from Mr Harry Greenway MP (Ealing North), Mr Hurd said:

"In conjunction with the Treasury, my Department has reviewed the arrangements in the Broadcasting Act 1981, as amended by the Finance Act 1986, for additional payments by independent television contractors (the levy). The review was undertaken to consider transitional arrangements for the 1990-92 contract extension period prior to the re-structuring of independent television on the lines proposed in the Government's recently published White Paper on Broadcasting. It also took into account the recommendations of the 43rd Report of the Committee of Public Accounts in 1987-88.

"Following consultation with the IBA, we have decided that the levy for the period 1 January 1990 to 31 December 1992 will be raised both from the net advertising revenue and from the profits of the independent television contracts. It is intended that the overall yield of the levy during this period should be of broadly the same amount as would have arisen under the arrangements which existed prior to 1986. The structure of the new levy will be such that about three-quarters of the total yield is expected to arise from net advertising revenue and the remainder from profits.

"The purpose behind these changes is to encourage cost consciousness amongst the independent television contractors and to ensure an adequate return to the Government for use of a scarce national resource during the contract extension period.

"Precise details of the levy structure will be published in the spring of next year. The Government's detailed response to the 43rd Report of the Public Accounts Committee will be published in a Treasury Minute early next year".

dti

the department for Enterprise

ccp

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

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01 235 7000

Direct line 215 5422
Our ref PBLAIV
Your ref
Date 12 December 1988

NBSM while Treasury expand.

*ALG
12/12*

Dear Chancellor of the Exchequer,

DBS LEVY

I have seen Douglas Hurd's letter to you of ~~5~~ ¹² December about the levy on DBS services. As you know, I attach great importance to giving BSB as clear a statement as we can of our levy policy in order to help them raise the substantial sums of money they still require before launching their service.

I therefore support Douglas' suggested text, subject to one amendment. I do not think we should explicitly include the existence of foreign government financial support as a factor that we would take into account in determining the levy. This does run counter to our general policy in this area and, if stated in this way and applied more widely, could be seen to justify domestic subsidies in sectors right across the industrial spectrum.

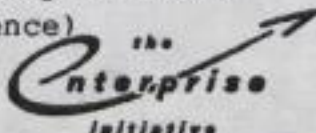
May I suggest therefore, that the text to BSB is amended so that the last two sentences of the penultimate paragraph are replaced by;

"We for our part would want to take account of all relevant factors and, in particular, we would want to be satisfied that it would be reasonable to depart from a zero rate before doing so, having regard to the interests of fair competition at the relevant time".

I am copying this letter to other members of Misc 128 and Sir Robin Butler.

*Yours sincerely,
O. Ginn*

(Approved by the Secretary of State
and signed in his absence)



BROADCASTING : BBC frames PA



CONFIDENTIAL

ce P.V.



QUEEN ANNE'S GATE LONDON SW1H 9AT

B // NBSM & tel team report.
Recd 7/12 6 December 1988

Dear Nigel,

ITV AND DBS LEVIES

Thank you for your letter of 16 November. I am grateful to you for agreeing to an ITV levy for the contract extension period 1990-92 based on a mixture of revenue and profit. Our officials are already in touch about the detailed figures and I shall make an announcement as soon as this work has been completed.

I should also be grateful if you were able to look at a possible compromise on the question of the levy on DBS services. It is, as you say, true that BSB will be in the same position as Channel 3 and 5 licensees in being subject to levy while competing with services such as those carried on Astra which will be outside the levy net. But BSB are in a special position: they will be competing head-on with services carried on Astra in the satellite dish market whereas the other ITC licensees will not. Furthermore, that competition will be one-sided as it is. BSB (and any other UK DBS operators) are financed wholly by the private sector. In contrast the Astra company's operations are being guaranteed by the Luxembourg government to the tune of £75m; without this guarantee I understand that the company would have found it very difficult to secure loans to finance increased project costs.

Once BSB reach cumulative breakeven the size of the initial investment and the time needed to recoup it will, as you say, be historical facts. They are of course crucial to entrepreneurs who are considering now whether to invest in BSB. It is not, I think, unreasonable for them to be reluctant to see levy liability left wholly open-ended when deciding whether BSB offers a satisfactory return on their capital. After all, the Channel 3 and 5 licensees will know what rate of levy we have in mind when deciding whether or how much to bid as competitive tenders. BSB investors will not have this degree of security.

/I would therefore

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer
HM Treasury

CONFIDENTIAL

2.

I would therefore like to be able to offer BSB guidance which goes rather further than envisaged in your letter of 16 November. However, I fully take your point about competition, and have ... suggested, in the enclosed draft reply to BSB, a revised statement of our position which draws this out. I hope you will feel able to agree that the revised draft meets your point.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Yours,

Douglas

Anthony Simmonds Gooding Esq
Chief Executive
British Satellite
Broadcasting Ltd
70 Brompton Road
LONDON
SW3 1EY

cc Mr Whitney, IBA

for signature by: S of S

LEVY

Thank you for your letter of 17 October.

I fully understand your wish to have publicly usable guidance about the Government's future intentions with regard to the levy, bearing in mind your need to attract additional investment.

The liability of operators of commercial television services to levy reflects their use of a public resource in the form of internationally assigned and protected frequencies. I therefore see no grounds for amending the present law so as to exempt BSB (or any other DBS contractor) from such liability.

However, I have already made clear, as you know, that if DBS services were to be subject to a levy based on revenue rather than profits they would continue to be zero-rated during the period to the end of 1992. In the light of the points made in your letter I am able to set out the approach we would propose to adopt in the following period. We would not contemplate anything other than a zero rate for so long as BSB was not in cumulative profit. The possibility of payment of levy would not of course arise under the present law unless this were the case. Once BSB had achieved

cumulative profit, consideration would need to be given in the circumstances at the time by the Government of the day to the case for moving beyond a zero rate. We for our part would want to take account of all relevant factors; including the existence or otherwise of any form of financial support provided by other governments to satellite or programme services competing with BSB in the market. We would in other words, want to be satisfied that it would be reasonable to depart from a zero rate before doing so, having regard to the interests of fair competition at the relevant time.

I am copying this letter to the Director General of the IBA.

<jg>Sub/CB/Levy/DBS/ENC2

Number 6

24 November 1988

IS AMERICAN TELEVISION THAT BAD?**Fact and Fantasy in the Free Broadcasting Market****RAYMOND B. GALLAGHER****SUMMARY**

With the publication of the Government's White Paper Broadcasting in the '90's a barrage of criticisms has been directed at its free market tenets. Foremost amongst these is that programme standards will fall and the viewer will be impoverished by 'wall-to-wall Dallas' and the type of inferior television which is allegedly the result of America's competitive broadcasting system. Yet the claims that American television supplies the average viewer with '35 varieties of totally similar rubbish' is not based on fact. The experience of American television is that more, and less regulated, channels generate more choice and more diversity in programmes and more programming typically regarded as the distinguishing feature of public service broadcasting: news and current affairs, religious and minority programmes and local programmes. This IEA Inquiry examines the evidence on American television and compares it to British television. It also dissects the critics' arguments that more competition in television means worse television. It finds them grossly overstated and many totally inaccurate. The conclusion is that the viewer is being misled by producer groups (broadcasters and other producer groups) who have a vested interest in maintaining the status quo.

This IEA Inquiry is a shortened version of Ray Gallagher's chapter in Freedom in Broadcasting (ed. C. Veljanovski) to be published by the IEA early in 1989.



IS AMERICAN TELEVISION THAT BAD?

Fact and Fantasy in the Free Broadcasting Market

RAYMOND B. GALLAGHER

L INTRODUCTION

American television is getting adverse publicity in Europe. Implicitly and explicitly, both the content - seen as 'wall-to-wall Dallas' - and the structure of American television - representing a market-driven, rather than 'public service', broadcasting philosophy - are maligned.

At the extreme, one gets the impression of American television as the 'Great Satan' of world media, representing the worst, most base, lowest common denominator programming. Its relatively free market is seen as a free-for-all, a crass search for profit at the expense of diversity, quality and an informed, culturally enriched society. Americans, in spite of having a quantity of television no one can deny (indeed, to some, because of this), are thus considered 'impoverished' compared to their European counterparts.

In Britain, such views have reached an unheralded level of public visibility as policy decisions which will shape television's future draw closer, and as the stakes for vested interests grow higher. Indicative of this are the comments of a leading columnist in The Sunday Times (18 September 1988) that 'running a free market television company (in Britain) will be a grim, remorseless business, as it is in America,' and accusing government policymakers of 'dismantling a system that produces reasonably good television in favour of one which, on every scrap of available evidence, will produce incomparably worse television' (emphasis added).

In the very same newspaper, a full page advertisement (placed by one of the independent television franchise holders) could be found warning of the many threats posed by 'deregulated' television and competition. Its message is explicit: 'The best way to make sure it doesn't happen here is to preserve the environment in which British television operates'. This echoes the columnist's judgement that British television 'has not been bettered under any regulatory regime abroad', and that 'We should leave well alone'.

With the 'wisdom' of media commentators and industry 'insiders' given such visibility, and stated so explicitly, it is no wonder that degrees of this outlook have spread to become the general public image of American (and deregulated) television. Consequently, there is a widespread belief - at least implicitly - that television must be controlled in many ways in order serve the public interest; that is, to secure television's benefits, as well as to 'protect' from such 'dangers' as advertising and 'profit-seeking' companies.

Television Fantasy

Unfortunately, most popular opinion - and, less forgivably, much of that heard in the supposedly 'informed' policy debate - is flawed by a distorted picture of both American television and the functioning of the medium in a deregulated marketplace.

It is the contention of this IEA Inquiry that many of the negative depictions of American and deregulated television (such as those listed in Table 1) are sheer fallacy, or at best half-truths, while others rely on vague or extremely subjective notions to establish the 'inferiority' or 'evils' of the U.S. system. Simultaneously, the strengths and benefits of America's relatively free television structure are usually ignored or obscured, as are the contradictions and deficiencies of 'public service' broadcasting in Britain.

The most damaging effect of the 'mythos' of public service television, however, is not that it distorts the picture of American television. Rather, it is that the public is misled into accepting the 'virtues' of public service broadcasting and governmental intervention without public awareness of: (i) the full range of

Table 1COMMON FALLACIES ABOUT AMERICAN/DEREGULATED TVProgramming

- American TV is 'all the same', a homogeneous output of bland, predictable sitcoms, police shows and 'wall to wall Dallas'
- There is less 'serious' or 'high brow' programming than in Britain, eg documentaries, informational, educational, current affairs, cultural, and minority television
- The greater the amount of commercial television, the more homogeneous and less serious the programme output
- There is less diversity or 'genuine choice' in American television

News and local service

- Commercial television offers less news and informational programmes than public service TV
- Regulation is needed to ensure adequate amounts of these programmes
- American television is all network or 'national' TV with little service to local communities
- Commercial incentives and lack of regulation reduce 'localism'
- Strong commercial networks do not allow room for individual local or regional stations, which cannot compete

Advertising

- There is too much advertising on American TV
- Commercial television is not 'free': viewers pay for the advertising in more expensive products
- Without restrictions, stations feature non-stop advertising
- Advertising revenue is insufficient to finance new channels or networks
- There is inadequate finance to support local or independent stations

Table 1 (continued)New media

- Cable television is all 'second-hand' programmes and re-runs
- Only a portion of the U.S. has access to cable TV
- Except for new urban cable systems, most subscribers receive only a few additional channels
- Fee-based services reduce the amount of 'free' TV

Market forces and regulation

- Any benefits of the American system have come from government regulation
- Regulation is needed to protect or further 'the public interest'
- The profit motive reduces risk-taking; companies 'play it safe' rather than try anything new
- Multiple ownership of television stations by the same company affects programme bias and restricts diversity
- Regulation is essential to promote 'balance' and fairness on TV
- Deregulation results in a reduction of 'public service' programming
- Regulatory authorities are benevolent and act in the public interest

Other

- Americans view British television as the 'creme de la creme' and envy the public service broadcasting structure
- American experience is irrelevant to Britain and Europe

costs imposed; (ii) the additional television choice and alternatives foregone; and (iii) the knowledge that many of the virtues of public service broadcasting are present even in a relatively unregulated environment. The pervasiveness of this mythos is due in part to ignorance, but also to calculated misrepresentation by vested interests.

It is essential to separate fact from fantasy, to debunk a number of prevalent assumptions about American television, and to question the standards and premises on which judgements are made, in order to promote more informed decision-making on the future of television in Britain. For virtually 'every scrap of available evidence' not only refutes the largely unsupported claims of the sort quoted earlier, but instead supports three contrary propositions - specifically, that:

1. American television features a greater variety of programme choice than anywhere else in the world. Not only does this include an astonishing quantity and variety of entertainment programming, with more channels and longer programming hours, but also that claimed as the special province of 'public service' broadcasting - eg news, public affairs and minority interest television.
2. Virtually all the benefits of American television - eg in terms of programme offerings, new technology and economic development - are due to market forces, which means: competition and the profit motive. The corollary, supported by several decades of experience, is that regulatory efforts have generally inhibited television's growth, service to the public and economic benefits.
3. America's relatively free market structure serves the needs of a free society more appropriately than that of a highly regulated public service broadcasting system. It provides scope for more outlets, independent and controversial viewpoints, and local 'grassroots' service, with less opportunity for government abuse - in contrast to the paternalism, entry barriers and greater government role in public service broadcasting.

The 'mental map' of American television pictured by most today resembles the first maps of North America created by the earliest explorers: there is so much incorrect or missing from the picture that it requires almost total re-drafting. While it is possible here to re-draw only some of the most general distortions and 'blind spots', it is nonetheless hoped that even a brief glance at the American television landscape will dispel much of today's 'common wisdom' with common-sense and self-evident realities.

II. TELEVISION CHOICE

Perhaps the simplest way to illustrate America's vast programme choice is a glance at Table 2, listing the 20 largest cable programme networks in the U.S. It is difficult, if not impossible, to take seriously any claims of American television homogeneity, 'wall to wall Dallas' or 'lack of genuine choice' with the presence of so many, and such diverse, television programme services.

Furthermore, these represent less than one-third of just the national programme services available to cable television. There are, in fact, close to 70 national cable programme networks currently operating - plus more than two dozen nation-wide audio ('cable radio') and text-on-screen services - all delivered from a dozen private commercial satellites. Those carried on individual cable systems are usually supplemented by locally-originated, and sometimes regional, programme services as well.

How can such choice be ignored by critics of American television? Apparently quite easily, in the first place, since viewers outside of America have no exposure to these market realities. But even if evidence as to the actual quantity and variety of American television is discussed, criticism often reverts to a number of secondary or 'fall-back' fallacies. For instance, it may be claimed that, while these programme services do indeed exist:

- only a small proportion of cable systems carry them, or
- they are available only to the few Americans who have cable television in their area, or

TOP 20 CABLE NETWORKS

(RANKED BY NUMBER OF SUBSCRIBERS)

	<u>VIDEO SERVICE</u>	<u>PROGRAMMING</u>	<u>DATE SATELLITE SERVICE BEGAN</u>	<u>CATEGORY 1/</u>	<u>SYSTEMS</u>	<u>SUBSCRIBERS</u>
1.	ESPN Bristol, CT	Sports events/programming; business news	9/79	B/A	17,000 <u>2/</u>	46.1 million <u>2/</u>
2.	CNN (Cable News Network) Atlanta, GA	24-hour news & special interest reports	6/80	B/A	11,000 <u>2/</u>	44.0 million <u>2/</u>
3.	Superstation TBS (WTBS) Atlanta, GA	Independent station: movies, sports, original & syndicated shows	12/76	B/A	12,635 <u>2/</u>	43.4 million <u>2/</u>
4.	USA Cable Network New York, NY	Family entertainment & sports programming	4/80	B/A	10,100	42.0 million
5.	MTV (Music Television) New York, NY	24-hour, all-stereo video music programming	8/81	B/A	4,590	39.4 million <u>3/</u>
6.	The Nashville Network New York, NY	Country music & sports programming	3/83	B/A	6,100	38.0 million
7.	Nickelodeon New York, NY	Entertainment for kids	4/79	B/A	5,670	37.9 million <u>3/</u>
8.	CBN Cable Network Virginia Beach, VA	Entertainment, family programming	4/77	NC/A	7,905	37.2 million
9.	Lifetime New York, NY	Information & entertainment especially for women	2/84	B/A	3,700	36.0 million
10.	The Weather Channel Atlanta, GA	Local, national, regional, & international weather	5/82	B/A	3,200	33.0 million
11.	C-SPAN Washington, DC	House of Representatives & public affairs programming	3/79	B	2,700	33.0 million
12.	NICK at Nite New York, NY	Entertainment for young adults	7/85	B/A	3,860	31.5 million <u>3/</u>
13.	Headline News Atlanta, GA	Round-the-clock half-hour newscasts	1/82	B/A	4,000 <u>2/</u>	30.0 million <u>2/</u>
14.	A&E Cable Network (Arts & Entertainment) New York, NY	Entertainment: series, theatre, film, music, dance	2/84	B/A	2,500	30.0 million
15.	The Discovery Channel Landover, MD	Nature, science, technology, history, exploration	6/85	B/A	2,700	29.4 million
16.	WT-1 New York, NY	24-hour video music programming	1/85	B/A	1,715	24.7 million <u>3/</u>
17.	WGN Chicago, IL	Independent station: movies, sports, series	11/78	B/A	10,810 <u>2/</u>	24.2 million <u>2/</u>
18.	FNN (Financial News Network) Santa Monica, CA	Live financial & business news	11/81	B/A	1,850	22.75 million
19.	FNN/SCORE Santa Monica, CA	Live sports news & financial data	4/85	B/A	1,150	19.2 million
20.	Cable Value Network Plymouth, MN	Home video shopping	5/86	NC	1,730	18.5 million

1/B - basic service; small fee/per subscriber paid by operator; usually no additional fee paid by subscriber// A - service accepts national advertising// NC - no charge to subscriber or operator// P - pay/premium service; per subscriber fee paid by operator; subscriber pays added fee

2/Includes SMATV affiliates as well

3/Based on A. C. Nielsen data

SOURCE: NCTA National Cable Network Directory, March/April 1988

Data received from services; audio and text services not included; system figures have been rounded off.

- the programming is all 'second-hand' or 're-runs' anyhow, or
- they are all expensive subscription services, unaffordable to most

Or the 'last-ditch' fall-back may be used: that it is 'free' broadcast television to which critics really refer when discussing the American market, since (they say) this is how most viewers receive their television, and it is this 'traditional' television service which remains an undisputed wastland.

Let us consider these claims briefly.

Cable Television

First of all, cable television is not just a peripheral part of the American television landscape. It is, in fact, the dominant form of television distribution in the U.S.

Market size. Less than half of America's television homes now receive their television via broadcast aerials: as of August 1988, some 52 per cent were cable subscribers. Furthermore, cable television is available not to a minority, but to more than four out of five, American homes, and of those offered cable service, about two out of three homes subscribe - a total of 45 million homes at the aforementioned date.

While it is true that no individual cable system offers every available programme network, even the smallest of those listed in Table 2 is in no less than 40 per cent of cable homes, while most of the Top 20 are in more than 70 per cent of cable homes and the largest are in almost every cable household. Network growth is swiftly outdating these figures as well: the Arts & Entertainment network, for example, had gained another six million homes by September 1988, bringing it into some 8 out of 10 cable homes.

Also, some programme networks, by their specialist nature, do not seek or expect carriage on every cable system. Black Entertainment Television (BET), for instance, is less likely to be found outside areas where its minority audience is located. At March 1988 the channel was however available on cable systems

with more than 17 million subscribers (close to 40 per cent of cable homes), many of which are located in and around urban areas with a large minority population.

First-run programming. Claims that cable programming is all 're-runs' are clearly false. Most of the programming of news and information channels - eg Cable News Network, Financial News Network, Cable-Satellite Public Affairs Network, Headline News - is not only original but live. These total tens of thousands of programme hours per year. Sports and premium film channels are also major contributors to new programming, the latter essential to the financing of new production for the cinema as well.

The more cable networks grow, generating a larger revenue base, the more they are increasing the amount of original and exclusive programming carried. The general entertainment USA Cable Network, for instance, has commissioned 24 original 'made-for-cable' movies which premiere beginning April 1989; this is above and beyond the channel's current \$250 million commitment to produce and acquire programmes never before seen on American television.

The Arts & Entertainment cable network, which offers 24 hours a day of distinctive drama, documentaries, performing arts and comedy from around the world, will co-produce more than 104 hours of special presentations and series in 1989 - an increase of over 60 per cent from its current level.

The Discovery Channel, which offers 18 hours a day of documentary programming in five categories - nature, science, technology, history and exploration - is also increasing its level of original and exclusive television in America. Among its innovative programming in 1987, 70 per cent of which had never before been seen on American television, was the transmission of more than 60 hours of Soviet television in one week. During the Moscow Summit, the channel also carried the main Soviet nightly newscast with same-day translation for five days.

Fees. Cable television is, as some critics deride, indeed a fee-based service: in 1987 the average rate was \$13.27 per month. In considering the value of this fee, however, critics and viewers would do well to consider the number and

type of channels Americans receive at an average yearly subscription of approximately £94 - less than the annual cost of a quality newspaper in Britain - on an optional basis, compared with those supplied by a compulsory license fee of over £60 in Britain. As is evident, cable subscribers will not find any shortage of the news, arts, documentary or cultural programmes considered an intrinsic part of public service broadcasting - plus much more.

It should also be noted that a number of programme networks do not charge cable operators a fee and can be received without a subscription fee via a home satellite dish. Approximately 2 million homes receive additional television this way, many of whom also pay for the 'scrambled' fee-based channels. Furthermore, some of these satellite programme services beginning to expand on a 'free over-the-air' basis via new 'low power' television stations.

Broadcast Television

If claims about cable television are so clearly fallacious, what of 'free' broadcast television? With more than half of American homes on cable, some suggest 'traditional' television must be all the more 'impoverished'.

The fact is, that while cable and other new distribution methods have expanded the television choice of Americans vastly beyond that of traditional broadcasting, there is still a significant - and growing - selection of free over-the-air television, including local, informative, and minority interest programming.

More channels. Whereas British viewers have a choice of four broadcast channels, more than 70 per cent of American homes can receive nine or more over-the-air channels. Viewers in large cities can choose from around a dozen. And lest it be claimed that this is the result of 'depriving' other homes of any broadcast service, 97 per cent of American homes still receive more channels than Britain, at least five, excluding cable and satellite services.

More hours. Besides more channels, American viewers can also find more hours of output on broadcast television than their foreign counterparts, and a greater variety of programmes at different times of the day - or night.

In New York, for instance, seven of the area's dozen broadcast stations operate 24-hours a day: the three network stations ABC, CBS and NBC; three independent television stations; and the noncommercial public broadcasting affiliate. Each night these offer a total of 28 hours of broadcast programming between 2 and 6 a.m., compared to four hours on ITV - the only 24-hour broadcast channel in Britain (and only since 1987) - and perhaps an hour on Channel 4.

More variety. To underscore the programme choice available on broadcast television, let us focus on the above stations solely during the hours of 2 to 6 a.m. on a typical weeknight (3 August 1988).

Among the 28 hours broadcast one could find a total of 9 hours of purely 'informative' programmes: 'Nightwatch', four hours of news and current affairs on CBS; 30 minutes of local news on the ABC station; 'Independent Network News', 30 minutes, on independent channel 11; and four hours of news, science, nature and other documentary programmes on the noncommercial public station WNET. To this 'serious' menu another 19 hours of entertainment programmes could be added, including three different films, several chat shows, a number of comedy and adventure series, and even a home shopping service.

Can there be any doubt as to which market offered the greatest viewer choice - and this in the middle of the night, excluding the 35 channels of cable television available to New Yorkers?

It should be emphasised that the American television viewer is offered choice within as well as between programme types. With regard to 'breakfast' television, for example, New Yorkers could tune into three broadcast network programmes (as in most American communities), offering further viewer choice as to the presenters, guests, news and overall style of the programme preferred - or any of the following non-network broadcast programmes at 7 a.m. on the same day as above:

- Good Morning New York (local two-hour breakfast programme)
- Ohayo! America (two-hour Spanish language breakfast programme)
- Beverly Hills Teens (cartoon)
- Sesame Street (children's educational)
- Yoga (health/fitness)
- El Tesoro (Spanish language cartoon)
- Success-N-Life (religion)
- Cisco Kid (western)

In terms of total programme output, the American television market presents a mind-boggling sum. Whereas the combined output of BBC1, BBC2, ITV (including TV-am) and Channel 4 totaled less than 24,000 hours during 1987, this was exceeded in New York by either the three commercial network or the three 24-hour independent stations alone. Taking all New York broadcast stations into account, including another five which transmit approximately 18 hours a day, the total broadcast output in New York is around 95,000 hours per year, almost four times the amount of broadcast television available in London.

If cable television is taken into account, the total is several times greater. Subscribers to Manhattan Cable, for example, receive up to 35 channels, most operating 24-hours. Excluding the channels offering pay TV, the output of programming available in cable homes exceeds a quarter of a million hours per year.

Other programme comparisons

Innumerable additional programme comparisons can be made between the American and British markets, all supporting the extraordinary choice of the former, both within and between programme types.

The total amount of current affairs and general factual programmes broadcast on ITV, for example (14:22 hours:minutes per week average in 1987), is exceeded by CBS television's 'Nightwatch' alone (20 hours per week). To this can be

added CBS' other current affairs and general factual programmes (including three hours per week in prime time), the output of all other broadcast channels, and such dedicated cable networks as The Discovery Channel and Cable-Satellite Public Affairs Network.

With regard to religion, one can find more than six hours of programmes - over 300 hours per year - just on New York's broadcast stations on Sunday mornings. This compares with a total annual output of less than 200 hours on BBC1 and BBC2 (combined), and a total British public service broadcasting output of less than 400 hours annually. To the American figures can be added a variety of religious programming on broadcast channels at other times, several dozen full time religious broadcast stations, and seven satellite distributed religious cable networks.

Ethnic and racial minority tastes are served by a variety of outlets. For instance, more than 80 per cent of Hispanic Americans can receive at least one Spanish language broadcast television station; some receive two. In addition, Spanish programming is carried part-time on other broadcast channels and full time on two satellite distributed cable networks. Cable's Black Entertainment Television network features news, films, musical specials, black college sports and music video shows 24 hours a day. National Jewish Television is another cable service offering cultural, religious and public affairs programmes for the Jewish community on Sundays.

Where there are sizeable ethnic communities one can find a variety of other specialist programming. During a typical week in August 1988, for example, New York television featured at least 10 hours each of Korean, Chinese and Japanese television programmes.

Educational and instructional programming on broadcast television is offered principally through America's 322 noncommercial public stations. On weekday mornings, for instance, one can find approximately 3 hours of pre-school programmes alone (780 weekday hours per year) - compared to ITV's combined total of about 314 hours of pre-school, school, children's informative and adult

education programmes for all of 1987. With regard to cable/satellite services, there are two nationwide dedicated educational networks: The Learning Channel (20 hours per day), and Mind Extension University, offering college level 'telecourses' for credit. Many individual cable systems also have local educational channels; in New York, for example, there is CUNY-TV, a 16-hour per day City University cable television channel.

News and local programmes

Table 3 provides one last, important example of the contrast between American and British television choice, specifically in the area of locally produced news. This has been chosen precisely because of the oft-heard 'threats' to local service and informational television posed by a deregulated, commercial marketplace.

How impoverished are Americans compared to the viewers of highly regulated and subsidised public broadcasters?

- Whereas London viewers can obtain locally produced news on two public service channels, ITV (Thames) and BBC1, New Yorkers can choose from five metropolitan-wide commercial broadcast stations alone (plus news on Spanish language stations, public television, and cable systems not included here).

- The locally produced news available to Londoners on weekdays totals 90 minutes. On New York's commercial channels there is close to seven times this amount - some 10 hours of locally produced television news - after adjusting for commercials, previews and other non-news material in and around news programmes.

- Whereas most local news in London is in 5 or 10 minute 'bulletins', except for a 25-minute early evening segment, New Yorkers can view newscasts scheduled in segments of between 30 minutes and 2 hours long. Furthermore, New Yorkers commonly have a choice of up to three competitive newscasts during the same viewing period; in London, no choice between locally produced news programmes is available at the same time.

Table 3

Locally—Produced Television News Programmes: London and New York
(Tuesday 16 August 1988)

London (1)

	<u>BBC1</u>	<u>ITV (Thames)</u>
8.55 a.m.	5 min.	
9.25		5
10.25		5
12.55 p.m.	5	
1.20		10
3.25		5
6.00		25
6.35	25	
10.30 p.m.		5
Totals	35 min.	55 min.

New York (2)(3)

	<u>WCBS 2</u>	<u>WNBC 4</u>	<u>WNYW 5</u>	<u>WABC 7</u>	<u>WWOR 9</u>
Pre-noon(4)	10 min.	10 min.	(4)	10 min.	
12.00 p.m.	30				60
5.00	60	60		60	
6.00	60	60		30	
7.00			30		
10.00			60		60
11.00 p.m.	30	30		30	
Post-midnight	30		30		
Totals (3)	220 min.	160 min.	90 min.	160 min.	120 min.

TOTAL LOCAL NEWS LONDON: 90 minutes (1-1/2 hours) on 2 channels
 TOTAL — NEW YORK: 750 minutes (12-1/2 hours) on 5 channels
 (Less non-news material) (3) 600 minutes (10 hours)

Source: Raymond B. Gallagher, from local television listings

Notes to Local News Table:

- (1) No local news is transmitted on BBC2 or Channel 4
- (2) Local television news is also broadcast in New York by additional Spanish-language and public broadcasting channels, by stations reaching only a portion of the market (eg Long Island), and cable systems
- (3) New York totals include non-news material (eg commercials, schedule previews, public service announcements) before, during and immediately following news broadcasts. Actual news totals are estimated in parenthesis by deducting a conservative 20 per cent of programme time.
- (4) Probably underestimated. Network 'breakfast' and morning news programmes offer several 'cutaways' for local news bulletins. WNYW 5 also offers a two-hour local breakfast programme 'Good Day New York' not included in totals.

- As a percentage of total daily programme output, locally produced news on the commercial New York stations (after adjusting for commercials etc) ranged from 5 per cent to 12 per cent, with three of the five stations at more than 10 per cent of output. In comparison, locally produced news in London comprised less than 4 per cent of BBC1 or ITV's daily programme output.

- Even more astonishingly, the amount of locally produced news on each of the New York stations exceeds the total amount of national news on the BBC, ITV or Channel 4 (in percentage or absolute terms), as well the total production for all local interests (news and non-news) of virtually any BBC or ITV region.

If all locally produced New York programmes were included, as well as national news and public affairs, the American proportion would be even more striking. To illustrate this: the IBA Annual Report 1987-88 indicates that the proportion of 'informative' programmes on ITV (eg news, current affairs, arts, religion, education) averages 32.9 per cent of output, excluding breakfast TV. Yet in America, several studies of television output during the late 1970s and early 1980s found the proportion of commercial broadcasters' similar 'informative' programmes (classified as 'non-entertainment' programming) averaged between 29 and 32.5 per cent - only slightly less than ITV's present average, but still higher in absolute terms due to the greater number of American channels.

To illustrate a more current example, this author's analysis of WCBS-TV (channel 2) in New York, on a typical weekday (Thursday 4 August 1988), indicated that approximately 43 per cent of the station's schedule (excluding breakfast TV, to keep the figures comparable with ITV) was devoted to similar 'informative' programming. Furthermore, analysis of a typical Sunday schedule, when a greater amount of public affairs programming is usually offered, found some 13 hours or close to 58 per cent of the output (excluding breakfast TV) dedicated to 'informative' programmes. Both figures indicate a far greater proportion of 'public service' type programmes on the commercial American channel than with the highly regulated public service broadcaster.

III. TELEVISION IN A FREE SOCIETY

Far from impoverishing its citizens, America's relatively free market television structure serves the needs of a free society far more appropriately than that of a highly regulated than that of a highly regulated public service broadcasting system like Britain's. The former provides scope for more television outlets, local 'grassroots' service, independent programming decisions, few barriers to entry, alternative news sources and 'press rights' to express controversial viewpoints, with far less opportunity for governmental manipulation of the medium — in contrast to the paternalism, entry barriers and greater governmental role in public service broadcasting.

Television outlets. Britain's television allocation policies have created both an artificial scarcity of television outlets and (except for ITV to some degree) an unnecessarily powerful centralised structure. This has given individual television channels more social influence than is merited, especially compared to other media, and reduced the number of media 'voices' otherwise available to a free society.

The American public, in contrast, has access to far more television outlets than daily newspapers, not just within an individual community (as previously described) but in terms of the nation's collective 'media voices' as well. Close to 1,400 individual broadcast stations are licensed on a local market basis, with more than 250 others approved. Furthermore, there are an almost equal number of new 'low power' television stations licensed — some 1,700 — with around 400 already on-air. The latter, broadcasting to a smaller market radius, could eventually total up to 4,000 individual outlets.

More than 8,000 individual cable systems serve over 23,000 American communities, with hundreds more approved. In addition, there are single and multi-channel microwave television systems being licensed on a local market basis, and nine firms have been authorised to provide direct broadcast services for small dish reception by the mid-1990s, each planning between 8 and 32 channels of television service.

Market entry. There are few barriers to entry in the American television market compared to Britain. Religious organisations, racial and ethnic minorities, and other groups may - and do - own and operate their own television services, and these opportunities are increasing with the growth of such outlets as low power television.

Britain's artificially scarce television outlets, on the other hand, make it difficult for (say) the nation's West Indian or Asian minorities to control their own broadcast service (eg unlike Hispanic Americans). Therefore, these groups must generally rely on 'filtered' programme segments offered and controlled by public service broadcasters to serve their interests. From an American perspective, it is also antithetical to a free society that religious entities are actually prohibited from owning a television station or cable system in Britain.

Local 'grassroots' service. The transmission of all but direct satellite services on a local market basis allows far greater potential for 'grassroots' service and local responsiveness in American communities than is allowed in Britain. As previously discussed, this capability is used extensively for such programming as locally produced news.

Responsiveness to local interests, however, does not have to mean the provision of locally produced programming. Local interests may be even greater for bought-in programmes, broadcast network or satellite 'feeds', or even subscription television service. The American market structure, however, focuses the assessment of local needs at far more of a 'grassroots' level than in Britain, with service providers aware that competitors will continually seek to identify unserved or underserved local needs.

American broadcast stations are located in more than 200 separate geographic markets, many far smaller than the 12-14 regions the BBC and ITV each serve. In fact, close to 60 of America's broadcast television markets serve less than 100,000 homes - excluding even smaller low power television communities. Cable operators also must assess which services are of interest to the public at a far smaller community level; around half (over 4,000) of the nation's cable systems actually serve less than 1,000 subscribers, while not even 15 per cent serve more than 10,000 subscribers.

With only two channels offering limited local (actually regional) programming in Britain (BBC1 and ITV), and neither having to compete for finance (each having a respective monopoly of the license fee and advertising), it is questionable how developed service to British communities really is. Indicative of this is the relatively small difference in local output between the commercial television regions in Britain. The smallest region - the Channel Islands - featured over five hours per week for its 120,000 viewers in 1987, while the largest - London - offered just over seven and a half hours per week for the same period, but for almost 10.5 million (87 times as many) viewers.

Independent programming decisions. American television stations, contrary to much myth, are not controlled by the commercial broadcast networks (ABC, CBS and NBC). These companies are in fact limited to a maximum of 12 individual stations with no more than 25 per cent of the nation's television homes. The majority of the stations which carry their programmes (around 200 for each network) do so on a voluntary commercial basis. Furthermore, they are free to supplement (or pre-empt) the network schedule for locally produced or bought-in programmes, to switch affiliations, or to act as free independents as more than 300 other broadcast stations do.

The programming decisions of American broadcasters are therefore independently derived and made on the basis of local needs and market forces. In contrast, Britain's public service broadcasters are required to serve the government's (or its appointees) vision of the 'public interest' in television, with requirements for programming categories, approval of schedules and so on, and little competition. It is virtually impossible for a BBC or ITV region to 'opt out' in order to serve its public on a similarly independent basis.

Alternative news sources. Local news has been well documented above. At the national level, the provision of television news in Britain has been a government-created duopoly of the BBC, for its two channels, and Independent Television News (ITN), for ITV and Channel 4. In America there are far more alternative sources of news, as befits a free society, eg: the news divisions of ABC, CBS and NBC; Independent Network News (INN), available on more than 100 independent stations; news on the Public

Broadcasting Service; plus such 24-hour cable and satellite services as Ted Turner's Cable News Network (CNN) and Headline News, the Financial News Network (FNN), the Cable-Satellite Public Affairs Network (C-SPAN) and NBC's forthcoming Consumer News and Business Channel (CNBC).

C-SPAN offers two entire channels providing live coverage of the U.S. House of Representatives and the U.S. Senate, as well as other public affairs programmes and election coverage without parallel in Britain. In contrast to British audience's limited exposure to their nation's political process, particularly at 'grassroots' level, Americans this year have been able to follow developments from local events like the Iowa Democratic Steak Fry through round-the-clock convention and election day coverage.

The Electronic Press

In America, television today is increasingly considered part of the 'electronic press', whose function is identical with that of the printed press. Its relatively free market structure makes it but one of many outlets in a vast information marketplace which includes not only the aforementioned television distribution systems, but also other electronic media such as radio, home video and cinema, as well as the vast spectrum of print publishing. Together, these thousands of information sources compete for the attention of the public and contribute to an overall 'intellectual marketplace'.

While each of these information sources has different technological and economic characteristics, there is agreement that the public does patronise a variety of outlets and, if dissatisfied with one, can always turn to - or, in America, even start - another. Commercial broadcasters are not considered 'unaccountable' since they must provide a reputable service to their audiences, compete with other media and receive constant public criticism.

Fairness doctrine. For these reasons, American broadcasters today have almost equal leeway as the printed press in making their own 'editorial' judgements as to the mix of information, entertainment and advertising provided to their audiences. This was even extended to the coverage of controversial issues on

television in 1987 when the FCC eliminated the 'fairness doctrine', which had required coverage of controversial issues of interest in communities and obligated broadcasters to air contrasting viewpoints on any such issue already covered.

The FCC found that more than 30 years of experience with this regulation confirmed it had the opposite effect of inhibiting the discussion of controversial issues on television, and that on the basis of a substantial record the 'fear of governmental sanction resulting from the doctrine' created 'a climate of timidity and fear', which deterred the coverage of controversial programming.

This 'chilling effect' was underscored by cases of governmental abuse, whereby officials in several Presidential administrations attempted to quell the dissemination of what they viewed as 'extreme' commentary on television, and where many broadcasters - especially small ones - chose not to cover tough local issues for fear of not satisfying the government's judgement of 'balance'.

In responding to those who voiced concern about protecting the 'public interest' from the 'private interests of broadcasters', the FCC noted that critics:

simply fail to understand...that the public's interest in a diversity of information and viewpoints is promoted most when broadcasters are free to cover controversial issues of public importance without fear of subsequent governmental intervention.

As a U.S. Supreme Court Justice noted, the concept of fairness is 'too fragile to be left to government bureaucrats to accomplish.' The FCC also noted that partisan debate is essential in a democracy, and that it is vehement and robust debate which best serves the search for truth.

In the same vein, Supreme Court Justice Byron White stated that while the press is not always accurate or responsible, and may not present full and fair debate on public issues, that:

society must take the risk that occasionally debate on vital matters will not be comprehensive and that all viewpoints may not be expressed... Any other accommodation - any other system that would supplant private control of the press with the heavy hand of government intrusion - would make the government the censor of what the people may read and know.

It is in this, perhaps more than any other, context that America's television market structure serves the needs of a free society more appropriately than that of a highly regulated public service broadcasting system. Indeed, it is questionable to what extent the latter can present controversial issues which challenge those who grant broadcasters' license fees and monopoly franchises in the first place.

It is difficult to envision, say, a Watergate (or Irangate) being pursued with such vigor by the television media in Britain, where public service broadcasters have constantly been subject to inhibiting criticism and reporting restrictions - and, in the case of the BBC, even had staff 'vetted' by the government security services. Similar intervention would be extremely difficult in the American television market today, with broadcasters' increased independence and multiplicity of outlets.

Furthermore, investigative television reporting and issue coverage is a growing feature on the local level in America, serving its citizens democratic needs. There is no such equivalent in Britain, where the television structure and programme 'balance' requirements weigh heavily against similar vigorous coverage of such issues as local government corruption.

IV. WHAT CRITICS MEAN

As this paper has shown, the realities of American television contravene both popular conceptions, and the assertions of many industry observers and insiders. Most of the criticisms commonly heard about the 'inferiority' or 'evils' of American television, and the 'dangers' of deregulation and competition, are in fact sheer fantasy, taken out of context, or based on vague or extremely

subjective criteria. More significantly, the strengths and benefits of American television have generally been ignored or obscured, as have the contradictions and deficiencies of public service broadcasting in Britain.

Contrary to critics' claims, there is no evidence that running free market television companies is a 'grim, remorseless business': witness the 'profit-seeking' companies which are in fact the source of unparalleled news, public affairs, arts and documentary services in America. Nor can it seriously be claimed that British television 'has not been bettered under any regulatory regime abroad', when the American market structure has created economic and consumer benefits only dreamed of elsewhere: witness the state of British cable television.

Not least, there are strong arguments (and concrete examples) that the American television structure has served - and continues to serve - the needs of a free society far more appropriately than highly regulated public service broadcasting: witness the aggressive and unencumbered search for truth by the many alternative American news organisations in the Iran-Contras debacle, versus the harnessing of the British broadcasting duopoly on Zircon, Spycatcher and other controversial issues of public importance.

Yet, in spite of all the evidence to the contrary (of which only a small portion could be presented here), many critics still continue to malign American television and claim that deregulation and competition will 'impoverish' the British public. Let us therefore briefly examine some common criticisms and contradictions, and consider what critics are likely to really mean in maligning American television and maintaining that the medium must be controlled in order to serve the public interest.

Quality and Diversity

Undoubtedly the most common criticism maintained about American television, regardless of the facts and figures presented, is that it somehow offers less 'real' choice or 'genuine' diversity than British public broadcasting, and that deregulation heralds a lowering of television 'standards' or 'quality'. What is usually obscured, however, is the totally subjective nature of such criticisms.

Programme diversity, for instance, applies not just between programme types (eg sport and news offer two different types of television choice for the viewer), but also within programme types (eg how much news, local versus national etc, and which sports are offered). Furthermore, 'real' choice is not the existence of more or different types of programmes for their own sake, but the availability of the particular programmes an individual prefers and the overall value they offer the viewer. Therefore, such factors as the convenience (ie availability of preferred programmes at different times of day and night) and cost of television (in terms of the alternative use of one's time and/or license or subscription fees) must be considered as well. Critics, however, usually obscure this proper context for evaluating television.

The same applies to the subjective notion of 'quality'. For example, the expenditure, talent and production standards used in an individual programme (or across a full television schedule) mean little apart from the overall value offered to the viewer. A so-called 'quality' drama programme (eg with higher expenditure, more 'noted' writers or actors, and 'sophisticated' production techniques) is of little value to a viewer who would actually prefer a less 'acclaimed' non-drama programme not requiring such resources. In fact, the former can even be seen as detrimental to consumer choice if resources could have been redirected to the creation of more alternative programmes which offer viewers equal or greater relative value.

In reality, there are few barriers to providing what critics commonly refer to as 'higher quality' or 'more diverse' television in a relatively free market - if indeed there is a demand for such programmes and viewers find adequate value in them (enough to devote their viewing time and/or finances). Should viewers find existing programme choice bland and boring, or not satisfying their full range of tastes, there is every incentive and opportunity in the open marketplace for competitors to offer more quality or diversity (ie a higher value service). Thus we have seen the development of such services as arts, documentary and news channels in the American market.

By their choices - the ultimate being to 'switch off' completely - the public constantly sends (and programmers are constantly on the look-out for) messages about television's relative value, and services demonstrate their worth among

many possible alternatives. This process, however, is distorted in a highly regulated public service broadcasting environment, where the number of channels is artificially restricted, and where many programmes are required by regulation, as well as subsidised by compulsory license fees or television advertising monopolies.

Who Decides?

What critics usually mean when they condemn the lack of 'quality', 'diversity' or 'genuine choice' on television is that there is not enough of the programming which they (the critic) think people ought to be watching, or what suits their personal taste.

The implication of this attitude was best expressed almost 30 years ago by Sir Robert Fraser, the first Director General of Britain's Independent Television Authority (ITA):

If you decide to have a system of people's television, then people's television you must expect it to be. It will reflect their likes and dislikes, their tastes and aversions, what they can comprehend and what is beyond them. Every person of common sense knows that people of superior mental constitution are bound to find much of television intellectually beneath them. If such innately fortunate people cannot realise this gently and considerately and with good manners, if in their hearts they despise popular pleasures and interests, then of course they will be angrily dissatisfied with television. But it is not really television with which they are dissatisfied. It is with people.

There never has been a true system of 'people's television' in Britain, however, which would reflect the full range and proportions of public likes and dislikes, tastes and aversions etc. Instead there has been a highly controlled television system which gives people some of what they want, but also what paternalistic policymakers and broadcasters think people ought to have. Furthermore, this

structure serves to prevent people from choosing 'too much' of what the controlling elite considers either 'poor quality' programmes or television which is 'unsuitable for British tastes'.

Even today, attempts to create a system of 'people's television' are being restrained by what appears to be a fundamental distrust of the public. This particularly applies to concerns about the possible 'Americanisation' of British television, and the loss or dilution of 'cultural values'. Yet if public service broadcasting truly serves the public's actual needs and interests, the new choices will have limited appeal. And if the British public does choose to view foreign programmes (American or otherwise), or what critics consider 'lower quality' television, or to patronise channels which feature a greater number of advertising messages, the basic fact is that is that this reflects their freely chosen values, rather than those accepted only through manipulation by an elite which defines and 'freezes' the culture at its particular standards.

Generally, critics' claims - like the principles of public service broadcasting - are full of contradictions and arbitrary distinctions, eg: American television is 'unwatchable' (yet it is essential to limit American imports). British television is the 'envy of the world' (yet Super Channel has made large losses). The expansion of channels in America has meant 'worse' (yet these new services are among the leading buyers and co-producers of British television). Broadcasting is a 'national asset' requiring extraordinary controls (but not newspapers). And the BBC, with its guaranteed income, uses its resources to purchase such programmes as 'Dallas' and 'Neighbours' (the latter repeated twice a day), when these are among those most certain to be provided free to viewers in an open commercial market, and certainly not reflective of critics' cultural aspirations.

In addition to much ignorance regarding American television, many critics and (to the public's detriment) policymakers also display an astonishing degree of arrogance. This is captured brilliantly in the remarks of one member of a parliamentary committee, during 1988 hearings on an issue no less significant than 'The Future of Broadcasting':

It is possible, is it not, to watch television in your hotel bedroom in the United States and switch to about 30 channels and find them all equally mediocre, apart from the odd one which comes in from Britain.

Only to be followed by the chairman's comment that:

I can recall watching the proceedings of a legislative authority on a television programme in the States and I cannot think of anything more boring! Presumably the public would exercise its taste by not watching...

Behind the first remark is the frequently unvoiced attitude that American television is 'mediocre' not on grounds of 'quality' or 'diversity' per se, but because it is simply 'too American'. One gets the impression that these critics would be satisfied only by turning on the American hotel television to find peculiarly British subject matter, with Americans sporting (less 'mediocre') British speaking mannerisms and British styles of programme presentation. Yet 'American' style television is quite naturally what will be found in the largest proportion, from the commonest chat shows (featuring American hosts and largely American topics) to some religious programmes which reflect (only) some Americans' stronger fundamentalist beliefs.

It is also possible that many foreign viewers of American television haven't identified the programmes which meet their interests, due to the initial difficulty in following the programme scheduling and channel structure; some even resent the overwhelming number of channels from which to choose and the need to consult more complicated programme listings. Yet (on a smaller scale) it is no less perplexing for the American visitor in London to discern the nature of Britain's public service broadcasting channels when one finds 'Dallas' on the BBC, 'Dynasty' on ITV and 'Hill Street Blues' on Channel 4.

With regard to the second comment, the American public 'presumably' demonstrates its poor taste in mass, for there are more than 10.8 million regular viewers to C-SPAN, the channel featuring live coverage of the House of Representatives and public policy programmes. This taste for the 'boring' - first-hand monitoring of one's government representatives and public policy-making, with frequent viewer participation programmes - is 'exercised'

for an average of 9-1/2 hours per month, by viewers who vote at twice the national rate, with a 'hard-core' audience viewing 20 or more hours per month. 'Presumably' such arrogance and ignorance in critical public policy decision-making would be more exposed in Britain, to the benefit of citizens and chagrin of politicians, if similar 'American-style' television choice was available. For, among its programmes, C-SPAN televises hearings like the one above from the Congressional committees which make communication policy in America.

Envy of the World?

Both of the above quotes also reflect one the most 'sacred' claims in broadcasting mythology: that British television is the 'creme de la creme' and the 'envy of the world' - including America. Such arrogance could be put into perspective quite easily, however, if anyone considered how few Americans actually would be willing to substitute their television structure and content for that of the British.

It is sheer fantasy to think that the average American would be willing to trade nine or more free broadcast and 30-plus optional cable channels for less than a handful of 'public service' broadcasting channels, and agree to a compulsory license fee equivalent to more than \$100 a year - funds which could be spent on a variety of alternative information and entertainment services, or indeed anything of greater relative value. It would be equally absurd to convince the average viewer of his or her overall 'impoverishment' in television service compared to the British public, and to demonstrate that the switch would bring Americans more 'genuine diversity' or 'real choice'.

For most Americans, there would be a diminution of choice under the 'British model', eg: little overnight broadcasting; the replacement of extensive local newscasts with shorter 'bulletins'; locally based programming on fewer channels in fewer communities; less dedicated programming for significant ethnic and minority groups within a community (eg Hispanics, Koreans, Japanese etc in New York); and less opportunity to tune in to channels dedicated to a specific programme type (eg sport, music, arts, documentaries, children's) whenever the viewer desires. Furthermore, few Americans would be likely to welcome a duopoly of national news services; less scope for covering controversial issues;

the extensive barriers to market entry, competition and innovation of the British system; or indeed the fundamentally greater influence of government and its appointees in determining what is 'best' for the television public.

Exactly who would be the beneficiaries of the British television model in America? Essentially, the same special interests who benefit from the television structure in Britain: (i) the few broadcasters to whom viewers would become dependent, now wielding increased influence and monopoly sources of finance; (ii) ambitious regulators, with greater centralised control over the structure and content of television; and (iii) certain individuals and groups who wish to impose their personal standards of quality and diversity on all television viewers.

It is no accident that these few special interests are those to whom critics and policymakers usually refer, when indeed they can identify Americans who find British television an unqualified object of envy and admiration - eg the noncommercial Public Broadcasting Service (PBS), which has long sought funding as guaranteed as the BBC's license fee. For this claim clearly does not hold true for the vast majority of Americans, and it is doubtful that many supporters of even particular aspects of British television (eg 'quality' drama productions) would adopt the latter at the cost of the wider American choice.

Undoubtedly one of critics' greatest fears is that public service broadcasting channels like the BBC will follow the path of PBS as increasingly 'minority' channels - that is, services patronised only by a specific audience segment (eg 'high brow' audiences) or by many viewers only a small portion of the time - because of the success of a freer commercial market in satisfying public preferences. During 1987, public broadcasting stations in America received only 5 per cent of television viewing in homes that did not subscribe to cable, and only 2 per cent of viewing in homes which subscribed to both 'pay' (principally movie channels) and 'basic' cable (eg news, arts and documentary channels).

The traditional dominance of commercial broadcasters, public service or otherwise, is not exempt either. In America, viewership of the 'mass audience' commercial networks has fallen from around 90 per cent in the early 1970s, when there was little alternative choice, to only 75 per cent in non-cable homes in 1987 - due largely to the growth of alternative independent broadcast stations. More threateningly, however, network viewing in pay cable homes

dropped to only 47 per cent in 1987, with the new pay and basic cable channels accounting for 18 and 24 per cent of audiences respectively.

Ghetto or oasis? The American television market demonstrates that viewers, when offered alternative choice, indeed exercise that choice where additional value is presented, thus weakening the hold of 'traditional' commercial and public service broadcasters. This loss of long-established and previously unchallenged power and privilege is one of the central concerns of those cautioning against television deregulation in Britain. Much of this self-interest is however cloaked in terms of 'the public interest'. Commercial broadcasters, for instance, are more than willing to promote and accept 'public service obligations' in a protected regulatory environment: this is a relative 'bargain' for not having to prove their value against others in an open market.

Perhaps the most absurd criticism heard in this context regards the future of the BBC as a possible 'cultural ghetto'. This contradiction in terms clearly gives the game away, for it suggests that rather than offer a television 'oasis' - providing (and financing) only 'quality' or 'diversity' programming otherwise unavailable in the marketplace - the only way the public can be led to what is 'good' (and institutional power can be retained) is by pandering to, and charging for, 'popular' tastes as well.

The Myth of Public Service Broadcasting

In sum, the realities of America's (relatively) free television market challenge not only critics' claims, but many of the fundamental premises of public service broadcasting as well. It is the author's view that the British public, long subject to the mythos of the latter, has been - and largely continues to be - misled about the role and function of television, and the 'benefits' of a public service regulatory structure.

Most British viewers, for instance, pay their compulsory license fee in the belief that their television would not exist, or would be extremely restricted, without public service broadcasting. They are therefore grateful when there is an expansion of choice by public service broadcasters, eg breakfast television, a fourth channel, 24-hour service, an additional regional news bulletin etc. Few

are aware that such services - and many more - would not only still be offered in a freer market, but probably would have been available for many years now.

Nor does the average viewer generally recognise that when a new service like Channel 4 is given a 'mission' (by policymakers) to offer 'complementary' and 'minority interest' television on a national basis, this forecloses the possibility of the marketplace providing more local service or more of the type of programmes already enjoyed.

Even fewer realise that the premises of 'spectrum scarcity' and 'universal service' are among the most fundamental broadcasting myths perpetuated, and that many viewers could have had a fifth, sixth or even seventh channel for some time now. To American eyes it is astonishing that European ministries, ostensibly serving free societies, were actually able to withhold information on spectrum allocation for so many years.

It is as if the public were convinced that there could be only four newspapers in a nation, with a host of similar restrictions in the 'public interest': eg two financed by a mandatory fee on all newspaper-reading homes and two financed solely by advertising; news articles provided only by two organisations; regional news in only two of the newspapers; the fourth allowed to cater to 'minority' tastes only; and each required to be impartial, with no specific editorial opinion allowed.

Indeed, it is equivalent to policymakers looking at the printing press and seeing only their conception of 'public service publishing', eg a 'quality' newspaper - missing the prospect, and subsequent economic and consumer benefits of, books, magazines, circulars, weekly, local and free circulation newspapers, specialised high quality subscription publications and so on.

Unfortunately, unlike publishing, policymakers, public service broadcasters and other special interests in Britain have been able to impose their vision regarding the role, function and content on the rest of society. Consequently, much of the public is, and will remain, convinced they are being regulated (and in the case of license fees, virtually robbed) for their own good - until fact replaces fantasy in American and British television.



CF-PA

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

16 November 1988

Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Dept
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9BW

Prime Minister
You will wish to be aware
of these exchanges. Following
certain arguments Home Office
and Treasury do not seem
to be seeking a sensible
compromise.

RAG

17/11

Stan

ITV LEVY CONTRACT EXTENSION PERIOD AND BSB LEVY

Thank you for your letter of 1 November.

I accept that ITV companies will be under pressure to reduce their costs before the post 1993 franchises are auctioned and I continue to see advantages in reinforcing those pressures by adopting a revenue levy that maximises the incentive to reduce costs. But I accept that, until viewers have access to a greater range of channels, we must guard against the accusation that we are indifferent to quality. In view of your concern therefore I am prepared to settle for a mixed scheme consisting of around three quarters yield from revenue and one quarter from profit between 1990 and 1992. Our officials will need to go through the detailed figures proposed by the IBA very thoroughly and ensure that they are likely to deliver a levy yield commensurate with that of the pre 1986 levy for a reasonable range of possible changes in costs and revenues. Moreover, agreement on the details will have to be reached quickly if we are to include the relevant clauses in the 1989 Finance Bill.

Second, you suggested we give BSB an assurance about the Government's future intentions with regard to the levy. I accept that BSB should be zero rated for levy purposes until they reach cumulative profit and that we should tell them so before they have to raise more finance. But I do not believe we should go further. Once BSB do reach cumulative profit, the size of their investment,



the time required to achieve break even and the level of risk involved will be historical facts of little relevance in determining what their future levy liabilities should be. And the existence of competition from television services not subject to levy liability would affect all ITV companies, not just BSB. An undertaking not to apply a levy on BSB until they are in cumulative profit should reassure investors that the levy will not stop them earning a return on their finance and will affect only the split of future profits earned by exploiting scarce spectrum.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large, stylized initial 'N' and a long horizontal stroke extending to the right.

NIGEL LAWSON

BROADCASTING Co. Financials.

Pt. 7 :



dti

the department for Enterprise

cc/b

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

The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
Queen Anne's Gate
LONDON
SW1H 9AT

Department of
Trade and Industry

1-19 Victoria Street
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Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PS4BMR
Your ref
Date 11 November 1988

*NBM
at the steps.*

*Recd
11/11*

Adm

Lord Young

BSB LEVY

Thank you for sending me a copy of your letter of 1 November to Nigel Lawson.

BSB have a major task ahead of them to raise their £700m second round financing next year. It is clearly right that they should be given some publicly usable guidance about their future levy position. This needs to be as positive as possible, without, as you say, offering any unnecessary hostages to fortune. I therefore fully agree with the line you propose to take.

I am copying this letter to the Prime Minister and other members of MISC 128, and to Sir Robin Butler.

*H. S.
David*

the Enterprise Initiative

BROADCASTING: BBC Finance Pt. 1



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dti

the department for Enterprise
RESTRICTED

cepk

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

Miss Catherine Bannister
Private Secretary to the Home Secretary
Home Office
Queen Anne's Gate
London SW1H 9AT

**Department of
Trade and Industry**

1-19 Victoria Street
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Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 5422
Our ref PB3ADQ
Your ref
Date 9 November 1988

*Nelson
PCC
10/11*

Dear Catherine,

WILL REQUEST IF REQUIRED

Thank you for copying to me your letter of 1 November to Lyn Parker about the draft Council of Europe Convention and draft EC Directive on Broadcasting.

My Secretary of State welcomes the progress that Mr Renton has made on the draft Convention and, in particular, the indication that the Germans are prepared to make significant concessions to resolve the advertising issue. When the details of the re-drafted text are available, and in the light of the views of the advertisers and broadcasters, my Secretary of State hopes it can form the basis of an agreement.

The Secretary of State also supports the pragmatic approach that has been adopted to both draft instruments, and their inter-relationship, and sees that as the best way of arriving ultimately at sensible and workable proposals.

He agrees that it is important to make the most of the opportunity offered by the Stockholm Conference. We should not however allow the political pressure to reach an agreement to override our main aim, which must continue to be a convention which fully satisfies our interests. We should therefore be prepared to hold out against agreement at Stockholm if the text at that stage still fails in any way to meet our objectives.

I am copying this letter to the recipients of yours.

Gareth Jones

GARETH JONES
Private Secretary



CONFIDENTIAL



*File No
a Prof Griffiths*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 November 1988

BROADCASTING WHITE PAPER

The Prime Minister was grateful for the Home Secretary's minute of 1 November and has noted the contents of his proposed oral statement next Monday.

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

Paul Gray

Miss Catherine Bannister,
Home Office.

CONFIDENTIAL

LG



QUEEN ANNE'S GATE LONDON SW1H 9AT

1 November 1988

*NBLM with Charles
report.
Page 6
2/11*

Dear Nigel,

ITV LEVY FOR CONTRACT EXTENSION PERIOD AND BSB LEVY

This letter seeks your response on the two levy issues above.

ITV Levy

Thank you for your letter of 17 October about the ITV levy for the contract extension period. I have also seen Peter Walker's letter of 27 September and David Young's of 10 October.

I remain concerned about the consequences of moving direct to a levy based solely on ITV revenue for the period 1990-92.

Your letter suggests that the redistributive effects of a revenue levy are not significantly different from those of one based on a mixture of revenue and profits. But we should not overlook the substantial impact on some companies. For example, as figures prepared by your officials show, Central TV would pay an extra £20m a year of its post-levy profits if there was a switch to a revenue levy in 1990, compared with an extra £13m under a mixed levy. In percentage terms, that company could expect a revenue levy amounting to some 70% of its gross profits. It has always been accepted that it would be wrong to introduce fundamental changes affecting ITV investors in mid-contract; and for practical purposes 1990 will be mid-contract. The ITV companies will all have the strongest possible incentives to reduce costs, and I see little prospect of the IBA being able to persuade some to take on others' obligations and associated costs at the same time as it is striving, in accordance with our wishes, to make the networking arrangements more competitive.

You also suggest that ITV would be deterred from reducing programme standards in a way which resulted in reduced viewing figures. But there is of course no direct relationship between the two - nor in the short term between viewing figures and profitability. After 1993 we will have a much more competitive market in which commercial stations who regularly neglect the

/satisfaction of

The Rt Hon Nigel Lawson, MP
Chancellor of the Exchequer

satisfaction of viewers and advertisers will be exposed to the financial consequences. Until then I remain concerned that a revenue-only levy would encourage ITV, at little or no risk to itself, to take money out of programming in ways which would not only make the output less attractive in international markets but would also work against the interests of advertisers who already complain that ITV is not achieving the right size or quality of audiences. At a time when we are promoting such a massive liberalisation of television we must guard against the accusation that we are careless of quality. By contrast a scheme which incorporated a profits element would help to maintain a balance of incentives for ITV companies still occupying a monopoly position in terrestrial services.

We also have to consider the link between our decision on this point and the general debate about the regime after 1993. The ITV companies, with their supporters in Parliament, are likely to be our sharpest opponents, because of their fears of competitive tender. I would like to avoid sharpening this opposition still further by our decision on the levy in the interim period. We are going to have a hard ride as it is.

I hope therefore that you might feel able to reconsider the arguments advanced in my letter of 12 September for the compromise solution of a mixed levy. It is already a compromise well tilted towards your point of view, since the mixed scheme would consist of three quarters yield from revenue, and only one quarter from profit. It will, I think, be fairer to both ITV companies such as Central and to viewers while still offering the substantial incentives to efficiency which I am as anxious as you should be achieved.

BSB Levy

... I enclose a copy of a letter I have received from the Chief Executive of BSB seeking guidance about the Government's intentions with regard to the levy.

You will recall that your letter of 17 October about the ITV levy recorded your hopes that BSB should continue to be subject to levy at nil rate, rather than taken out of levy liability altogether as the IBA had proposed.

After 1992, the levy on DBS services will be based on revenue rather than profits, in line with terrestrial ITC services. There can, however, clearly be no question of imposing a positive rate until BSB has achieved cumulative breakeven: the point at which it would only become subject to levy in principle under the present law.

/Assuming that

Assuming that it does so, I would like to be able to tell BSB that in considering whether there were good grounds for moving from a nil to a positive rate we would take into account the factors mentioned in their letter, especially the existence of competition from satellite channels such as Astra not subject to levy liability in any way. To leave the position entirely open or, worse, to tell BSB that we would aim in principle to assimilate DBS to terrestrial services for levy purposes, would make it much more difficult for BSB to secure their next tranche of investment. I would not think it right to go as far as the IBA has proposed; but I have a good deal of sympathy with the BSB argument that it would create an uneven playing field if they carried levy liabilities which Astra or other non-DBS satellite services escaped.

... I enclose the draft of the reply which I would like to send BSB, which I hope you will agree gives an acceptable steer without offering any unnecessary hostages to fortune.

I am copying this letter to the Prime Minister, other members of MISC 128 and Sir Robin Butler.

Yours,

Derry



BRITISH SATELLITE BROADCASTING

70 Brompton Road, London SW3 1EY
Telephone: 01 581 1166
Facsimile: 01 589 9493/9494

17 October 1988

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

Dear Home Secretary

The ITV Levy

My colleagues and I look forward to the opportunity of presenting our revised Business Plan to you, Lord Young, Tim Renton and a small group of officials on 27 October. In advance of that meeting I wanted to write about BSB's position under the ITV Levy. This has been highlighted by our financial advisers as an element where clarification will be vital in advance of our raising our Second Round Finance.

It is common ground that BSB will continue to be zero-rated, at least up to the end of 1992. I understand the difficulty which the Government may feel about giving assurances as to the future of the Levy or BSB's position under it when the Levy itself may be substantially changed once again after 1992. However, when we come to produce our prospectus for potential shareholders an indication of the Government's longer term intentions and the principles which it would intend to observe in weighing BSB's position under the Levy is of considerable importance.

BSB would submit, especially in the developing competitive climate envisaged for broadcasting in the 1990s, that the arguments normally advanced in support of the ITV Levy do not support changing BSB's zero-rated status. Before going through these arguments I should make a general point about the scale of risk and investment involved in BSB as compared with the risk and start-up costs for an ITV

12

contractor. I understand that the start-up cost for a new medium sized ITV company at the start of the last franchise period were some £10 million - the basic transmitter network already being in place. The pre-operational costs of TV-AM were £5 million. I understand that, despite the much publicised crises which shook that enterprise, they had only to sustain losses of £20 million before turning the corner into substantial profitability. By way of contrast, BSB will face a far more competitive environment - without the technological advantage of instant access to the full universe of homes - and will have to finance a total investment of some £900 million. Thus, for BSB to be subject to the Levy in the period after 1992 and especially before real terms pay back has been achieved would seem wholly wrong. It would involve paying what is popularly seen as an excess profits tax to the Exchequer before our own shareholders have received their initial funding back. The imposition of Levy would have a major impact on rates of return through the project period and the Government's position is, therefore of major importance to our existing and future investors.

I now turn to the three justifications normally advanced for the ITV Levy and suggest that they have limited relevance to BSB.

- i) A tax on monopoly profits: BSB will enjoy no monopoly or dominant position in the sale of advertising. It will face competition from ITV, Channel 4, perhaps Channel 5, Astra and, ultimately, locally-based MMDS services.
- ii) Payment for the use of a public asset (the broadcasting frequencies): While it is true that BSB will use scarce frequencies we are doing so after a competition to determine which potential operator offered the best service for the UK public and using only private investment. I would remind you that the DBS project in France has, for example, absorbed some £300 million in public money and that BSB is the only entirely privately financed DBS project in Western Europe or Japan. The DBS frequencies are virtually without value in advance of a vast investment in satellite hardware and a ground infrastructure. The frequencies will, thus, only be of substantial value after BSB's investors have borne the risk and developed them. It is relevant to note that frequencies for direct to home satellite transmissions are not as scarce as was once envisaged since changing technology has opened telecommunications frequencies for this purpose.
- iii) A prompt to greater efficiency: The changes in the Levy which the Government has recently proposed are clearly intended to exact an efficiency squeeze on ITV contractors. Although companies like Tyne Tees, Ulster and Thames have made strides in improving working practices there is still some way to go to ensure that more advertising revenue is spent on better programming rather than being frittered away on restrictive practices. When such practices arise from a monopoly

position it may be justifiable in the short term to use taxation as what amounts to an instrument of an interventionist industrial policy. However, extracting Levy from BSB could hardly be justified on such grounds. BSB has indeed, been an instrument for improving efficiency in the rest of the industry - as recent reforms in working practices at ITN have shown. BSB will commission the great majority of its programming out of house. It would be wrong, therefore, to penalise BSB for historic inefficiencies in the rest of the industry.

If, in the longer term, a Levy remains and the Government contemplates changing our zero-rating then there is a further issue which should be addressed. BSB is not only in competition with terrestrial broadcasters but also with other satellite operators either using other nations' DBS frequencies or telecommunications satellites. Operators on Astra and, potentially Eutelsat II, see the UK as amongst their prime target markets. If the Government is to avoid placing BSB, as the UK's official satellite operator, at a disadvantage it will need to devise a Levy to catch such operators whose start-up costs, as well as their commitment to the UK viewer, will be substantially lower than BSB's.

BSB is a uniquely ambitious project which will help to deliver a number of the Government's stated broadcasting objectives. The operating period needed to see investment in the project repaid is already a lengthy one. The potential rewards for investors are good but far from dramatic when seen in the context of the risks undertaken. For there to be uncertainty about the Levy would dissuade a significant number of potential investors when BSB raises its next major tranche of funding.

I am sorry not to have written directly at the time of your consultations with the IBA. It seemed only right, however, for us to precede our representations with a thorough revision of our own Business and Funding Plans. I hope that the Government will be prepared to give publicly useable guidance as to its intentions in regard to BSB and the Levy.

I am copying this letter to the Director General of the IBA.

Yours Sincerely

Anthony Simonds-Gooding
Anthony Simonds-Gooding

Draft letter for signature by the Home Secretary to:

Anthony Simmonds Gooding, Esq
Chief Executive
British Satellite Broadcasting Ltd
70 Brompton Road
LONDON, SW3 1EY

LEVY

Thank you for your letter of 17 October.

I fully understand your wish to have publicly usable guidance about the Government's future intentions with regard to the levy, bearing in mind your need to attract additional investment.

The liability of operators of commercial television services to levy reflects their use of a public resource in the form of internationally assigned and protected frequencies. I therefore see no grounds for amending the present law so as to exempt BSB (or any other DBS contractor) from such liability.

However, I have already made clear, as you know, that if DBS services were to be subject to a levy based on revenue rather than profits they would continue to be zero-rated during the period to the end of 1992. In the light of the points made in your letter I am able to set out the approach we would propose to adopt in the subsequent period. First, we would not contemplate anything other than a zero rate for so long as BSB was not in cumulative profit. The possibility of payment of levy would not

/of course

of course arise under the present law unless this were the case. Second, once BSB had achieved cumulative profit, consideration would need to be given in the circumstances at the time by the Government of the day to the case for moving beyond a zero rate. In considering whether such a move was justified, we for our part would want to have regard to the following factors: the scale of investment required, the time required to achieve breakeven, the levels of risk involved and the existence or otherwise of competition from operators of television services not subject to levy liability.

I hope that this is helpful. It does not give an unqualified assurance that BSB will continue to be zero-rated for levy in all circumstances, but we want to be satisfied that it would be fair and reasonable to depart from this position before doing so.

I am copying this letter to the Director General of the IBA.

BROADCASTING : BBC Finance

PTA.



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cc Q
DC
cc B1 Pines
✓ P

Prime Minister

You will wish to see. Note in particular
the para. on BBC subscription and the licence
fee on p. 6. Contact?

Prime Minister

BROADCASTING WHITE PAPER

Rec'd Yes.
1/11 - mid

You, and other colleagues, may be interested to see the terms of the oral Statement I propose to make on Monday next week when, as Cabinet agreed last week, the White Paper on Broadcasting is published.

There is of course very considerable Parliamentary, press and public interest in this issue, and I anticipate that both following publication and over the coming weeks and months there will be many opportunities for discussion of our proposals. It is clearly important that we should maintain a consistent and coherent approach, and that the Government should be seen to speak with a single voice. I anticipate that there will be great interest in particular in the balance between preservation of programme quality and deregulation and widening of choice. We must expect that some critics, including vested interests in the broadcasting world, will argue that there is a necessary conflict between some of these objectives.

Our general approach, as in the White Paper itself, should be to point out that our task is not to create a blueprint for the future but to create an enabling framework with increased opportunities for additional channels as the customer determines. Broadcasters will be able to make the most of opportunities made possible by new technology. Additional channels, together with a greatly increased role for subscription which enables the viewer to signal his preferences directly, and greater separation of the different activities making up broadcasting will develop the necessary conditions for genuine consumer choice. Safeguards on

/minimum standards

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minimum standards are needed to protect viewers and listeners but subject to this they should be able to exercise greater choice over the programmes they receive. They will be better served by a more competitive, innovative and efficient broadcasting industry. There will be measures to guard against concentration of ownership and cross-media dominance to ensure that this remains the case. While important positive programming obligations are retained, there is a large measure of liberalisation, particularly of ITV, and increased reliance on choice by viewers and listeners, rather than by regulators, to sustain range, quality and popularity. There should be better radio and television as well as more.

I am sending a copy of this to other Members of Cabinet and to Sir Robin Butler.

Douglas Hurd

1 November 1988

CONFIDENTIAL

BROADCASTING WHITE PAPER
ORAL STATEMENT BY THE HOME SECRETARY

With permission, Mr Speaker, I wish to make a statement about the Government's plans for broadcasting legislation.

I have laid a White Paper before the House today.

Our broadcasting system has a rich heritage, which is a tribute to the efforts and enterprise of the broadcasting authorities and all those professionally engaged in the broadcasting enterprise. Our proposals seek to build on these achievements in developing services of quality, range and popularity.

Broadcasting is changing fast and this change makes possible a much wider choice for the viewer and listener. The viewer should not be denied this choice. That is our starting point. The Government should not seek to lay down a blueprint for the future by picking favoured technologies. Rather we propose an enabling framework with increased opportunities for additional channels as the customer determines. Several dozen television channels and possibly several hundred radio services may be in prospect.

Subscription, which enables the viewer to signal his preferences to the broadcaster directly, will have a greater role to play. There will be a greater separation of the different activities making up broadcasting, including programme production, the assembly of individual programmes into channels, and transmission and service delivery.

The ownership of commercial television and radio should be widely spread. The White Paper contained detailed proposals to ensure that control ^{of} television and radio services is not concentrated in the hands of a few groups or individuals and to prevent excessive media cross-ownership. The Government is determined to keep the market open to newcomers, and to prevent any tendency towards editorial uniformity.

Safeguards on minimum standards are needed to protect viewers and listeners from shoddy wares and exploitation. Subject to these, they should be able to exercise greater choice over what they hear and see. While some important positive programming obligations are retained, we envisage a substantial liberalisation, particularly of the ITV system, and greater reliance on the viewer, rather than the regulator, to sustain range and quality.

These are the principles which have guided us. Our thinking has been influenced at many points by the Peacock Report ["Report of the Committee on Financing the BBC", Cmnd 9824, July 1986], and by the admirable report in June of the Home Affairs Committee of this House. I hope that Right Hon and Hon Members will read the White Paper in full, but I offer the House now an outline of our main proposals.

We propose that a new fifth channel, with 65-70% national coverage, should be authorised to begin broadcasting at the start of 1993. Different companies could provide the services at different times of the day but the channel will be nationally based. A sixth channel will also be authorised if technical studies show it to be feasible.

We propose a new flexible framework for the development of multi-channel local services through both cable and microwave transmission, known as MVDS. This will make possible a further extension of viewer choice. It will also provide new opportunities for local television in cities and for television services catering for minority interests.

British Satellite Broadcasting plan to start their three channel Direct Broadcasting by Satellite (DBS) service next autumn. The Government gave BSB an undertaking last year that the United Kingdom's fourth and fifth DBS channels would not be allocated until BSB's service had been in operation

for at least three years. BSB have recently said that they would be willing to see this moratorium lifted. Accordingly, the United Kingdom's two remaining channels will be advertised early next year. So five high quality DBS channels should soon be available to British viewers.

Viewers will continue to be able to receive other satellite services directly, including those from proposed medium powered satellites. We continue to work for international agreement for the supervision of programmes in such services and shall propose to Parliament sanctions against any unacceptable foreign satellite services received here.

The present ITV system will become a regionally based Channel 3. Licence-holders will, for the first time, have a statutory obligation to provide regional programming, including programmes produced in the region.

Channel 4's distinctive remit will be retained and reinforced to sustain high quality programmes in the commercial sector. We consider that advertising on Channel 4 should be sold separately from that on Channel 3. Subject to these points, the White Paper sets out options on the future constitution of Channel 4. The Welsh Fourth Channel Authority will continue to provide the Fourth Channel in Wales.

All these commercial television services will be free to decide their own mix between advertising and subscription funding, and will have greater freedom to raise money through sponsorship, subject to proper safeguards. All will be subject to consumer protection obligations regarding programme content. Most commercial television licences, including all those for Channel 3 and Channel 5 services, will be allocated by competitive tender subject to a quality threshold. Operators of Channels 3, 4 and 5 will be expected to show high quality news and current affairs programmes dealing with national and international matters and to show the news (and possibly also current affairs) in main viewing periods. Channel 3 and Channel 5 will be expected to provide a diverse programme service appealing to a variety of tastes and interests, to ensure that a minimum of 25% of original programming came from independent producers, and to ensure that a proper proportion of programme material is of EC origin.

There will be one additional requirement affecting Channel 3 only. There will be continued provision, like that which brought ITN into existence, to ensure that there is at least one body effectively equipped and financed to provide news for Channel 3.

There will be safeguards for the continued provision of a schools programmes service.

The Government agrees with the Home Affairs Committee that a new agency, which might be called the Independent Television Commission, should be established in place of the Independent Broadcasting Authority (IBA) and the Cable Authority to license and supervise all parts of the commercial television sector. It will be able to operate with a lighter touch than the IBA, and without the IBA's detailed involvement in scheduling, but will have strong sanctions against failure by its licensees to live up to their licence conditions.

The BBC will be expected to continue to provide high quality programming across the full range of public tastes and interests.

The Government looks forward to the progressive introduction of subscription on the BBC's television services and to the eventual replacement of the licence fee, which will, however, continue at least for some time to come. We propose that the night hours from one of the BBC's channels should be assigned to the ITC for allocation, like other licences by competitive tender. The BBC would keep the other set on the basis that it used ~~it~~ as fully as possible for making a start in developing subscription services.

We envisage that the part played by independent producers in programme-making in the United Kingdom will continue to grow, as future licensees will be free to operate as publishers, without programme production capacity of their own. We believe that the transmission infrastructure should be separated from the programmes services.

The Government proposes to proceed with the plans I announced to the House on 19 January for the deregulation and expansion of independent radio, under the light touch regulation of a new Radio Authority. There will be scope for three new national commercial stations and as many as several hundred local services, including community radio stations.

The Broadcasting Standards Council, established to reinforce standards on sex, violence, taste and decency, will be placed on a statutory footing. We propose that the exemption of broadcasting from the obscenity legislation should be removed at the earliest opportunity.

These are the main proposals set out in the White Paper. We aim to ensure that viewers and listeners have greater freedom of choice from a more varied output of programmes, including programmes of high quality. British television has a deservedly high reputation in the world. We expect to see that reputation grow with the new opportunities which are now in sight.

The House will have an opportunity to debate the proposals before they are put into legislative form. We shall also take careful note of views expressed outside the House. We shall then bring forward legislation.

cc PU



Prime Minister ²

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

26 October 1988

Dear Dominic

ml

TELEVISION LICENCE FEE INCREASES

I am writing to let you know that the Home Secretary proposes to announce tomorrow that the television licence fees will be increased from next April to £66 for colour and £22 for monochrome.

On 27 October last year he announced that the licence fees for the three years starting from 1 April 1988 would be increased annually in line with movements in the Retail Prices Index. As he had previously announced on 14 January 1987, the calculations would be based on the movement in the Index over the 12 months to the preceding September.

The current fee of £62.50 for colour and £21 for monochrome is the result of rounding last year's indexed increase to the nearest 50p, for consumer convenience and economy of administration. The September RPI shows a year on year increase of 5.9%. Applying this to the current unrounded figure produces precisely indexed fees of £66.21 and £22.07. It is clearly sensible to round these once again to the nearest 50p, which produces fees of £66 and £22. The effect of rounding down on this occasion will be a notional loss to the BBC of about £3.75 million.

..... } The Home Secretary proposes to announce the new fees by way of written reply to an arranged Parliamentary Question tomorrow, at the same time as the annual pension and social security upratings are announced by the Social Services Secretary. I enclose for your information and that of recipients of this letter the draft of that announcement.

I am copying this letter and its enclosures to the Private Secretaries to other members of MISC 128, the Social Services Secretary and Sir Robin Butler.

Yours sincerely

Catherine Bannister

MISS C J BANNISTER

Dominic Morris, Esq.

TELEVISION LICENCE FEE INCREASES

DRAFT ARRANGED PQ FOR ANSWER ON (?) * THURSDAY 27 OCTOBER

* to be confirmed with T2 Division

To ask the Secretary of State for the Home Department whether he is yet able to announce the level of the television licence fees to take effect from 1 April 1989; and if he will make a statement.

DRAFT REPLY

On 27 October last year, at Column 204, I announced that the licence fees for the three years starting from 1 April 1988 would be calculated in accordance with changes in the Retail Prices Index, which determine the rate of increase of pensions and other state benefits.

The RPI figure for September published on 14 October showed a year on year increase of 5.9 per cent. I have accordingly decided that from 1 April 1989 the colour licence fee should be £66 and the monochrome fee £22. The necessary regulations will be laid before the House in due course.

<ak>sub/smi/bann/tvl/fees/21/10/encl

mt

11



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Prime Minister
The only likely
contentious issue
is covered in
para. 9. below.
RACG

Ref. A088/3126

PRIME MINISTER

CABINET: BROADCASTING WHITE PAPER (C(88)12) 26/10

CONCLUSIONS

1. The Home Secretary's memorandum seeks the Cabinet's agreement to the publication of the Broadcasting White Paper in the week beginning 7 November and that he should make an oral statement at the time of publication.
2. The White Paper proposes a radical reform of the framework of broadcasting in the United Kingdom. It is bound to excite a great deal of Parliamentary and public interest and the Home Secretary asked that it should be brought to Cabinet so that he could obtain their specific endorsement of his proposals.
3. Legislation will be needed in the 1989-90 session so that the new arrangements are in place when the present ITV franchises expire at the end of 1992.

BACKGROUND

4. The present review of broadcasting policy started with the Peacock Report in July 1986. The White Paper also takes account of the House of Commons Home Affairs Committee's report on broadcasting (published in June 1988) and reports by consultants on subscription and on MVDS.
5. The White Paper's main proposals are summarized in paragraph 5 of the Home Secretary's memorandum. We have checked the draft White Paper and are satisfied that it embodies the decisions which MISC 128 took at their meeting last Thursday. Although you agreed at that meeting to give the Home Secretary latitude to indicate that the draft circulated to the Cabinet might require final revision and polishing, we understand that the Home Secretary spent a good deal of



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time last weekend refining the draft and that there are now only a handful of further minor adjustments which he might wish to make.

6. We understand from the Home Office that the White Paper will be given a glossy cover and will incorporate some photographs, as you requested at last week's meeting. The index has been improved and some of the paragraphs shortened in order to sharpen the presentation, and tables have been added setting out the expected timetable for additional television services and summarizing the proposed programme obligations for commercial television services. The Home Office will be producing a summary of the White Paper in leaflet form for issuing to journalists and parliamentarians (the arrangements for which have been cleared by the Chief Secretary).

Educational issues

7. Following last week's meeting of MISC 128, the Home Secretary and Education Secretary have exchanged correspondence about the treatment of educational matters in the White Paper. They have now agreed an amendment to the text of the White Paper to reflect the Group's decision that the position of Open University and schools broadcasting should continue to be secured. The Education Secretary has now accepted that, as MISC 128 agreed last week, there should be no special protection for children's and general educational programming (which, unlike Open University and schools programming, is supported by advertising and can therefore be expected to continue even in the absence of a specific requirement to this effect).

Legislative timetable

8. The Lord President and the Home Secretary have agreed a slight re-ordering of paragraph 1.5 of the White Paper to make clear that legislation will be introduced at the earliest opportunity after the expiry of the consultation period on 28 February 1989.

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OUTSTANDING ISSUE

9. We are aware of only one, relatively minor, outstanding issue. At last week's meeting of MISC 128, the Home Secretary made the point that if a suitable bidder did not come forward for the night hours channel which the BBC will be giving up then that channel should revert to the BBC. A sentence to this effect has been included at paragraph 3.12 of the White Paper, but the Trade and Industry Secretary may press for its exclusion on the ground that it sends the wrong signal. You may feel, however, that the sentence does no more than set out the commonsense position, on which the BBC seem bound to ask for clarification if the White Paper is silent on the point.

Brian Griffiths and I disagree with this; we think the sentence is best deleted.
PHB
20.10

HANDLING

10. You will wish to invite the HOME SECRETARY to introduce his Memorandum.

11. Before inviting comments from other members of the Cabinet, you may wish to explain that the proposals in the White Paper have all been very carefully considered by the Ministerial Group on Broadcasting Services (which, under your chairmanship, comprised the Home Secretary, Chancellor of the Exchequer, Trade and Industry Secretary, Welsh Secretary and Chief Whip and, at the last meeting, the Education Secretary and Mrs Chalker).

12. You might then wish to invite the TRADE AND INDUSTRY SECRETARY and the CHANCELLOR OF THE EXCHEQUER to comment before asking if other members of the Cabinet have views to express.

F.R.B.

ROBIN BUTLER

26 October 1988

cc. PJ



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

25 October 1988

PAD
26/10

Dear Murdo,

BROADCASTING AND TERRORISM

I am writing to confirm my telephone call earlier today, in which I gave our suggested text for the Motion on Broadcasting and Terrorism to be proposed by the Home Secretary on Wednesday, 2 November.

The motion reads as follows:

"That this House endorses the Home Secretary's directions to the BBC and the IBA to restrict the broadcasting of statements by Northern Ireland terrorist organisations and their apologists."

This should ensure a division to leave no doubt that the House supports the Home Secretary's action. I should be grateful if your office would make the necessary arrangements to have the motion placed on the Order Paper.

I am copying this letter to Andy Bearpark (No 10), Alison Smith (Lord President's Office) and Mike Maxwell (NIO).

Yours sincerely,

P J C MAWER

Murdo Maclean, Esq.



QUEEN ANNE'S GATE LONDON SW1H 9AT

25 October 1988

cc PU

nBPM
RACB
20/10

Dear Kenneth,

BROADCASTING WHITE PAPER

o Hatched

Thank you for your letter of 24 October with some clarification on points in the White Paper as they touch on educational matters.

I believe that what the BBC does to help the Open College is done as a matter of agreement between them and the College. Similarly, I think the BBC's relationship with the Open University is also governed by an agreement and I see that that is the expression used in your letter. If that is right, I think it would be a new departure for the White Paper to say, as you suggest, that we would require the BBC to continue to give assistance on the same scale as they do now. The point would be met if we were to add a sentence to this effect:

"The BBC also makes a major contribution to the operation of the Open University and the Open College and the Government does not envisage that the proposals in this Chapter [Chapter III] should lead to any diminution of this".

You suggest that there should be a requirement on operators of Channels 3, 4 and 5 to ensure that time is allowed for children's programmes and for general educational broadcasts. The ability of Channel 4 to make a contribution in both these areas should not be affected since, as you know, we are anxious to preserve its existing remit. It is true that it has recently decided to withdraw from children's programming on the basis that this is being done adequately by others. But presumably that decision could be reversed as and when it became clear that the television system as a whole was not fulfilling this need. To impose this requirement on Channels 3 and 5 would constitute a major departure in the White Paper and it would of course conflict with the conclusion reached by MISC 128 last week and recorded in the minutes.

The Rt Hon Kenneth Baker, MP.
Secretary of State for Education and Science

/over....

MISC 128 did agree, however, that there should be continued provision for schools programmes by the independent television sector. The White Paper accordingly now includes this passage:

"In addition, the Government considers that schools' broadcasts should not be provided by the BBC alone. It proposes that the ITC should have a duty to plan for adequate provision of such programming by the independent television sector, and should be able to include the necessary requirements in the licences of whichever of its UHF licensees it considers appropriate."

I hope you will agree that this adequately safeguards the position of schools' programmes.

I am copying this letter to Geoffrey Howe, members of MISC 128 and to Sir Robin Butler.

Yours,

Douglas,

Can we have a word about this?



CONFIDENTIAL

CCF

SS210L1



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

NBLm

PL 66

1

24/10

The Rt Hon Douglas Hurd CBE MP
Secretary of State for
the Home Department
50 Queen Anne's Gate
London
SW1H 9AT

24 October 1988

Douglas,

BROADCASTING WHITE PAPER

Minutes attached

I very much enjoyed the discussion on the White Paper on Thursday. I thought it was very useful in clarifying some of the outstanding points on what will be, I believe, a very well received White Paper.

Could I perhaps just remind you of the position of two matters that are really tangential but might occasion some comment? They concern the position of the Open University and Open College.

Firstly, the Open University is entitled under the existing agreement with the BBC to about 1000 hours of transmission time at marginal cost. Actual use is some 800 hours a year. This is roughly 20-25 in a typical week. The transmissions can go out on a Saturday or Sunday morning, as well as during the week, and are often broadcast late at night or early in the morning. I understand that none of these transmissions are made between the night hours of 1.00am to 6.00am.

I think it is important to say somewhere in the White Paper that we would require the BBC to continue to provide the Open University with time of this order. It might well be that the BBC would react to the taking away of one of the night channels from the BBC, for subscription, and immediately argue that this places too much pressure on their non night-hour time. I think this question can be answered quite robustly but you should be aware of it.

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Secondly as regards the Open College, Channel Four also makes available 150 hours a year for transmission of Open College programmes. We should expect this agreement to continue. This matter is more directly for Norman Fowler.

As regards educational broadcasts on the commercial channels, I think as you are aware, there are three types of these. The first is general educational programmes concerning such matters as the environment, the incidence of disease, industrial success stories and scientific inventions. This kind of programme tends to go out in the morning or the afternoon and is usually surrounded with advertising. Secondly, there are children's programmes. These are designed specifically for the children's market and go out in the morning and from 4 o'clock in the afternoon. Again these are frequently programmes of high quality made by the regional ITV companies. I think one would want to require regional companies on Channels 3, 4 and 5 to ensure that time is allowed for such programmes.

The third type is the schools programmes. These are transmitted on Channel 4 and therefore their licence must require them to provide time for the programmes. However, Channel 4 do not make these programmes: they are made by independent companies and it is a straight charge upon their operating costs - no advertising is associated with them.

These programmes are usually very high quality. They are prepared carefully for a term's work with material provided by the television companies and with guidance for teachers. I think one would have to require the regional TV companies to continue to provide such material. I do not think it would be appropriate to require Channel 5 companies to provide school programming. I do think, however, it would only be fair that they should be asked to require children's educational programming.

I hope you find these comments - which are really matters of clarification - helpful.

I am copying this letter to Geoffrey Howe and members of Misc 128.

Tanner

Hermit

to Bup

PRIME MINISTER

19 October 1988

MISC 128: BROADCASTING WHITE PAPER

The agenda for tomorrow's meeting is messy, as so much paper has been circulated since the summer.

The first draft of the White Paper led to a number of issues being raised by yourself, the Home Secretary and Lord Young. Following meetings and correspondence, the following are the major outstanding issues which need to be settled tomorrow:

The Major Issues

1 Cable and local services

This section of the White Paper is complicated. Unlike most other parts it has immediate significance for cable companies. It proposes a very specific new set of arrangements which some companies are bound to see as too restrictive; all existing cable companies will have to change their operations at the end of the existing franchise and some may elect to do so sooner.

Our record in setting a framework for cable is not good. Cable has not grown in the UK as rapidly as it might. Indeed until recently it languished.

It would be a tragedy if we were to introduce a new framework which discouraged cable in the future.

Recommendation

- a. the need to listen to the industry and potential

investment is more critical in this field than in many others,

b. uncertainty is bad for the industry: accept Lord Young's suggestion that the government settle the matter two months after the end of the consultation period.

2 Transmission System

The Home Secretary has moved from his initial position. He is now prepared to require the BBC and the IBA to contract out their operations to the private sector.

This is a useful step.

As the provision of transmission is a natural commercial activity, it would be far better, if transmission were separated from the broadcasting authorities (BBC and IBA), owned by private companies and rented by broadcasters.

It is however unwise to force the BBC to divest itself of its transmitters, as this raises the terms on which the Charter is renewed in 1996. Nevertheless two further steps are feasible:

a. the BBC could be encouraged either to sell transmitters or else establish joint ventures with private companies,

b. the IBA/ITC could certainly be required to sell off their transmitters.

Unless step (b) is taken, we run the risk that the cosy duopoly of transmission will effectively remain and that if the BBC and the IBA/ITC act in their self-interest, they could well use their control of transmission to make life

more difficult for potential competition.

Recommendation

Accept the Home Secretary's suggestion regarding contracting out as the minimum change. Urge the Home Secretary to explore further measures to break up the duopoly.

3 Fixed or Open-Ended Licences

David Young and Jeffrey Stirling both argue strongly that there is no commercial logic in granting licences for a fixed time period such as 8 years in a new system in which the shares of TV companies are freely traded and in which takeovers are permitted.

a. Fixed-term licences are necessary and important in a monopoly or duopoly situation as this gives the government necessary control over the possible abuse of power by ITV companies; but in an increasingly competitive situation, in which companies are subject to takeover such control is unnecessary,

b. under a fixed term licence the government/ITC will have very little control over the franchise holder when it is known that the franchise is not to be renewed.

c. eight or even ten years is not an attractive time horizon on which to set up a business with a substantial capital investment; if it is to be for a fixed term, it needs to be twelve to fifteen years,

d. the Home Secretary's objection regarding the possible need to redraw boundaries of ITV companies can be met by granting such powers to the ITC,

e. to the extent that the ITV companies generate

excessive profits, that can be recovered by the levy: if this is set properly there is no reason the Treasury should lose.

The alternative to a fixed licence would be an open-ended franchise period but subject to periodic review by the ITC to ensure that the terms of the franchise were being met.

4 ITN and C3 News

The Home Secretary has moved to your position. The only remaining question is whether the new company has a majority of outside shareholders from the outset. This is certainly perfectly feasible. The case for it is that it would give ITN or the new company greater freedom and probably greater revenue. At the very least it might be canvassed as an option in the White Paper.

The Chancellor is almost certain to object to the new proposal on the grounds that it is unnecessarily restrictive of competition. This is the classic text-book response of economics. If we pursued it however we should have no guarantee that there would be:

- a. a national network news to rival the BBC, or
- b. a high quality international news to match the BBC.

We would be more likely to end up with four or five different news programmes of indifferent quality shown by various companies but distinctly inferior to the BBC.

In any case more popular news will almost certainly be provided by BSB, Astra etc.

Recommendation

The possibility of the C3 News Company having an outside majority shareholding from the start should be included in the White Paper.

5 Subscription and the Night Hours

The only outstanding issue here is whether the Home Secretary should direct the BBC on the way it uses its night hours. Central to this is whether the BBC are really serious about moving to subscription. I suspect they are not and that Lord Young is therefore right to nudge them to capture a mass audience rather than sell time to specialist services.

Recommendation

Encourage the BBC to go for a mass audience through subscription.

6 Channel 4

Apart from including in the White paper the options already discussed, it is important that the idea of a "third force" which links C4 and C5 is included in the White Paper.

The advantage of a "third force" is that it will increase competition significantly. If C4 remains linked to C3, then we shall end up with a continuation of two large broadcasting blocks (BBC and C4 linked to C3 which will be a smaller number of merged ITV companies) with newer companies on the periphery (C5, BSB, Murdoch etc).

If however we separate C3 and link C4 to C5 we provide real competition for BBC and C3 from the start of the new system and also ensure that C3 is less competition for the newcomers.

Recommendation

While the future of C4 cannot be decided in the White Paper, it is important that all the options are set out impartially.

Yvonne Bankin

PP

BRIAN GRIFFITHS

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PRIME MINISTER

MEETING OF MISC 128: 20 OCTOBER

There is an enormous weight of paper which is relevant background to the meeting. But much of it is difficult to follow and provides an unhelpful basis for discussion.

The key papers are those included in folder 1 below, namely:

Flag A - Cabinet Office

Flag B - Brian Griffiths' brief

Flag C - Full draft of White Paper circulated by the Home Secretary in September

Flag D - Revised passages circulated by the Home Secretary earlier this month, to reflect the discussions you had with him.

In folder 2 are all the other background papers. I hope there is no need for you to refer to them. But you may like to have them to hand for the meeting in case others refer to particular points raised in them.

Attendance at the meeting

In addition to the normal members, the Foreign Secretary and Education Secretary are attending the meeting. The Minister for Arts has also expressed an interest in the exercise, and I have shown him a copy of the draft White Paper, but not invited him to the meeting. His relatively minor drafting comments - which I have now shown to the other departments mainly affected - are in the last paper at the back of folder 2. There is no need for you to refer to this.

Handling of the meeting

To ensure a reasonably orderly discussion, you should start by defining the agenda. Outstanding issues to be discussed fall under six headings:

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- (i) local services and Cable
- (ii) transmission
- (iii) Fixed or open-ended licences
- (iv) ITN
- (v) subscription
- (vi) Channel 4

I have arranged for both the Cabinet Office and Brian Griffiths (Flags A and B in folder 1) to organise their comments on the basis of this structure. So, having defined the agenda at the outset, you can then use Flags A and B to steer the discussion. If others present have comments that do not fit under these six headings, they can be taken at the end.

Conclusion of the meeting

Your aim will be to reach agreed conclusions on all the key points. You will then want to invite the Home Secretary to circulate the draft White Paper, under a suitable covering minute, to Cabinet for discussion next week, Thursday 27 October.

You may want a brief word at the end about the target date for publishing the White Paper; 8 and 15 November have been identified as possibilities.

PLG

PAUL GRAY

19 October 1988

SL3BED

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*file Arts
bc 89*

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 October 1988

BROADCASTING WHITE PAPER

As you know, I have passed to the Minister for the Arts' Office a copy of the draft White Paper, and invited the Minister to let me have any comments on the Arts aspects.

The Home Secretary will wish to see, before tomorrow's meeting of MISC 128, the enclosed letter from the Minister for the Arts' Office.

I am copying this letter to Alex Allan (HM Treasury).

PAUL GRAY

Miss Catherine Bannister
Home Office

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FCS/88/172Home SecretaryBroadcasting White Paper

1. I am sorry that I cannot be at MISC 128 on 20 October. It might be helpful if I set down my reactions on the key points:-

(a) Quality. The draft White Paper rightly observes that the distinctive quality of British television output is recognised around the world. How well we handle change, accepting new attitudes and opportunities, will be seen by many abroad as well as at home as indicative of the freshness and skill of our policies as a whole. We should tackle the business of reform in a way that does not threaten existing achievements. I particularly welcome the draft's insistence that the present areas of quality - in the BBC and in the remit for Channel 4 - should remain part of the choice available in the UK. The existence of competing areas of excellence, each with its own identity, undoubtedly gives greater strength to British broadcasting as a whole. We should learn from the example of other countries (notably the United States) where an apparent diversity of choice has in fact produced a multiplicity of barely distinguishable banality.

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(b) Decency. The draft White Paper is quite rightly very precise about arrangements for measuring and monitoring standards of decency etc (Chapter VII and paragraph 4 of Chapter VIII). This clarity is vital to implementation.

(c) Finance is clearly central, especially to the survival of Channel 4. Your draft reflects the critical question of whether Channel 4 should be expected to be able to fulfil its remit on the sale of advertising alone. I am sure that there is scope to raise more advertising revenue, but I am unclear how large or what kind of pool this might be. We do not want to force Channel 4 into a stark choice between its remit and chasing advertising. I therefore favour provision of a guaranteed minimum income (as in the revised proposals attached to your minute of 4 October).

(d) Subscription will be an important feature in any future arrangements. The speed with which BBC can move over to it will however depend on how fast technology can provide the means. Until that is clear, and until we have had a chance to discuss the question in some detail (and publicly) I should prefer to see a general encouragement of the idea along the lines of your draft without commitment to specific dates. Questions that need addressing include: whether we should move directly to fairly large fees; whether it will be possible to subscribe to individual programmes; and whether free "demonstration" showings will be offered. It would be helpful, if possible, to have some evidence from experience.

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(e) News. I welcome the idea of greater choice and competition in the provision of news programmes. Again, the important thing will be to keep up the quality. The amended proposal in your minute of 4 October recognises that a goods news product is expensive to provide. I would not want to see independent channels turning to contracts with overseas sources for all their news services. I assume that the concept of a company owned by private shareholders would be worked out in such a way as to guard against special interests, or disproportionate foreign holdings.

2. There are also some detailed points of concern to the FCO, which are set out in the attached annex, and which I hope you will be able to take into account in due course.

3. I am sending a copy of this minute to the Prime Minister, to members of MISC 128 and to Sir Robin Butler.

PP

(GEOFFREY HOWE)

Foreign and Commonwealth Office

18 October 1988

Approved by the
Foreign Secretary and
Signed in his absence.

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Broadcasting White Paper

The FCO's interests in the proposed changes in domestic broadcasting are:

(i) the knock-on effect the proposals will have on the FCO grant-in-aid funded BBC World Service, an integral part of the BBC drawing heavily on other BBC output, especially in the important area of news and current affairs:

- The proposals should in no way undermine the BBC's capacity for providing a high quality news service.
- The proposals in Chapter IX to open up the transmission networks to more private sector competition are welcome, provided the present high standard service can be maintained at less cost.
- The review of the transmission infra-structure due when the BBC charter comes up for renewal at the end of 1996 (Chapter X para 3) will need to take account of the high degree of integration of BBC World Service transmission operations with BBC domestic transmission operations.

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(ii) Ensuring that the proposals do not result in domestic broadcasts which create bilateral problems for the UK. The Foreign Secretary's concerns were set out in his minute of 20 June 1986 to the Home Secretary on community radio. The formulation in Chapter VIII para 4 aims to make programme operators responsible for their own service subject to a requirement to avoid "editorialising and giving undue prominence to views on religious matters or matters of political or industrial controversy". This could be more tightly drafted: as it stands, it would increase the risk of difficulty with foreign governments of countries where we have large interests at stake, some of whom can react very strongly to what they see as excessive tolerance on our part of broadcast material which damages them. It would be better for the wording to set the same standards of balance, accuracy and impartiality as now apply to the BBC and IBA.

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

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

**Department of
 Trade and Industry**

 1-19 Victoria Street
 London SW1H 0ET

 Switchboard
 01-215 7877

 Telex 8811074/5 DTHQ G
 Fax 01-222 2629

 Direct line 215 5422
 Our ref PS5BLR
 Your ref
 Date 17 October 1988

BROADCASTING WHITE PAPER

Thank you for sending me a copy of your minute of 4 October to the Prime Minister. I have also seen her Private Secretary's letter of 10 October and Nigel Lawson's letter of 6 October.

As the draft passage for the White Paper says, the new outline proposals for news on Channel 3 will need further study and consultation. Given its guaranteed funding and market, the proposed Channel 3 news organisation will obviously be well placed to compete on advantageous terms with any would-be new entrant, and it will be important when working up the detail to guard against the risk of an effective duopoly developing in the supply of TV news.

It is also important that the new organisation should be subject to strong pressure to maintain efficiency. To this end I would see advantage in seeking to secure a majority of external shareholders from the outset.

I remain unhappy with your proposal to give the BBC an entirely free hand to decide what kind of services to offer by subscription in the night hours. It seems right in principle that in the longer term the BBC should work with the same opportunities and constraints - in terms of the kind of services which may be offered in the night hours - as the

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other terrestrial operators, subject to the requirement in the BBC's case to use the night hours to develop subscription. But in the short term, while the BBC is in a position to use subscription in advance of its terrestrial competitors, we need to be particularly careful about what we authorise to avoid any risk of market distortion and BBC dominance.

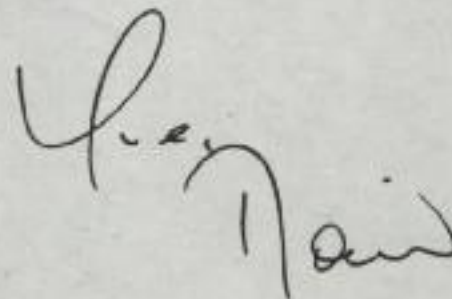
I would also repeat the point which seems to me to be crucial. Specialised business services will not accustom viewers at large to paying directly for services received from the BBC; yet that is the hurdle to be overcome if our objective of replacing the licence fee with subscription is to be attained.

I find the revised White Paper paragraph on the BBC's role in transmission a little confusing. I welcome your proposal that the BBC should if necessary be required to contract out the operation of its transmission network; but if the work is to be contracted out, does it make sense to talk any more of the BBC offering transmission services to potential new entrants to the broadcasting market?

I am also disappointed at your conclusions on ownership of the transmission infrastructure. As I argued in my letter of 4 October, much the best solution would be for the BBC to agree to give up their transmission rights in advance of 1996, thus giving us the opportunity to make sensible arrangements now to privatise the infrastructure as well as its operation. I still believe it would be worth exploring the possibility with the BBC; the more so as, if the operation and maintenance are to be contracted out, the case for holding on to the assets alone must be somewhat diminished.

I recognise that we might not want to float this possibility explicitly in the White Paper, but at all events the passage on ownership of the transmission system should be couched in open terms, to leave us the flexibility to pursue privatisation now if the BBC did after all turn out to be more amenable than anticipated.

I am copying this letter to the Prime Minister, to Geoffrey Howe, Kenneth Baker, other members of MISC 128 and to Sir Robin Butler.



Benedictine

FRANCIS

P=7





cc PH

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

17 October 1988

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the Home Department
Home Office
Queen Anne's Gate
LONDON SW1H 9BW

*NBPM at the
stage*

REC 19/10

Dear Secretary of State

ITV LEVY FOR CONTRACT EXTENSION PERIOD

Thank you for your letter of 17 September, which covered a copy of the IBA's reply of 28 July. I have also seen Peter Walker's letter of 27 September and David Young's letter of 10 October. *FILE WITH PG*

The IBA accept that a revenue levy would promote cost consciousness, but oppose it on other grounds. You drew my attention to two particular difficulties. First a move away from a levy on profits would redistribute the burden of the levy between companies. In practice, there does not seem to be much to choose between the revenue levy arrangements which you put to the IBA and their own mixed levy proposals. And to the extent that the change in burden reflects differences in efficiency, that is fully justifiable. Insofar as it reflects the distribution of costs imposed by the IBA, the remedy lies in the hands of the IBA and ITV companies who could improve the distribution by ensuring the costs of programming are fairly shared between the ITV companies.

Second, you suggest there will be a variety of pressures on ITV companies to reduce costs and, if a straight revenue levy is introduced, programme standards may be cut. I agree that if the ITV companies were to adopt a strategy which created dissatisfaction in the period before wider choice becomes available, there would be cause for concern. But it seems unlikely that any commercial television station would find it profitable to drop programme standards in a way which resulted in lower viewing figures.



I do not therefore find the arguments against a revenue levy convincing. Consequently I continue to favour doing as much as we can to encourage efficiency in the television industry, by adopting a straight revenue levy.

There are two related issues raised in the correspondence. Peter Walker has suggested that subscriptions to the fourth channel should be allowed for when calculating liability for revenue levy, and I am content with that. On BSB, I would hope the current arrangements under which they are subject to levy at nil rate could be continued. This would maintain the principle that television channels broadcast over scarce spectrum are subject to levy, without damaging the prospects of BSB earning a return on their investment.

I am copying this letter to the recipients of yours.

Yours sincerely,

Moir Wallace

PP NIGEL LAWSON

Approved by the Chancellor
and signed in his
absence.

BROADCASTING: BBC FINANCE PT. 7.

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From the Minister for the Arts

C88/5026

Paul Gray Esq
Private Secretary
10 Downing Street
LONDON
SW1A 2AA

17 October 1988

Dear Paul

BROADCASTING WHITE PAPER

Thank you for your letter of 12 October enclosing a copy of the draft White Paper, which my Minister has been interested to read. *with pg?*

Mr Luce's direct concern is of course largely with the cultural content of broadcasting - particularly television - and in this context (which includes the likely reactions from arts interests) he is pleased to note that the special role of the BBC is confirmed and that the additional services in the independent television sector, under the proposed Independent Television Commission, would still be required to provide a diversity of programmes (Chapter VI, paragraph 11). As you know there is considerable concern that increasing the competition and enlarging viewer choice will tend towards the 'lowest common denominator' in terms of style and subject matter. My Minister would therefore hope that artistic quality will be a consideration that the ITC would be asked to bear in mind; and much agitation would be avoided if a specific reference to this could be worked into the text, perhaps by adding in paragraph 11, "to have regard to cultural and artistic content in the balance of programmes".

This proviso would then make the monitoring procedures (in Chapter VI paragraph 17) more significant, and could be of considerable benefit in encouraging programmes of quality. The point would be further reinforced if the penultimate sentence of Chapter VI, paragraph 21 read, "the consumer protection requirements set out in paragraphs 10 and 11."

Turning to programme standards as outlined in Chapter VIII, my Minister naturally supports the provisions proposed, the move towards a code of standards on matters of taste and decency, and the proposal to extend the ITC's monitoring role to satellite services. This is an area where over-restrictive provisions give rise to protests in the name of artistic freedom, and a specific reference to cultural standards as previously suggested would take much of the sting out of this backlash.

On programme production (Chapter X) we strongly support the continuation of the 25% provision for independent producers, which has been a great stimulus to the production industry. As you know, the problem of maintaining a supply of domestically produced programmes, in the face of cheaper US imports, is of great concern in Europe and also relevant to the United Kingdom. It is perhaps a pity that reference is not made to this in the chapter on The International Dimension (Chapter XI) which is at present concerned only with the proposed European Community. Our statements on such matters will be watched very closely in Europe, and there is an air of complacency in paragraph 1 of this chapter which will be read as a lack of interest in European programming problems.

If a paragraph could be added dealing with this aspect (which is mainly a matter for DTI and the Home Office) it might mention the need to understand the growing European market and the increasing opportunities for co-operation. This would give a signal which could make proposals for co-operative ventures in Europe more acceptable, and the European Commission more receptive to UK interests.

Finally, I should say that Mr Luce supports the references to sponsorship in Chapter III, paragraph 18 and Annex A, paragraph 5. Sponsorship is an increasingly significant help with cultural programmes, and we should do nothing to discourage it.

I am copying this letter to Ricky Verrall in Eric Forth's office.

Yours

Martin Le Jeune

MARTIN LE JEUNE
Assistant Private Secretary

CONFIDENTIAL

PRIME MINISTER

Pr

BROADCASTING

The MISC 128 meeting to consider the latest papers is on Thursday. You have already seen most of the relevant material, but you may like to do some refresher reading over the weekend.

Papers enclosed are:

Flag A: Douglas Hurd's minute of last week attaching revised passages for the White Paper in response to your earlier comments.

Flag B: The summary note I let you have last weekend setting out Brian Griffiths' comments on these revised Douglas Hurd proposals.

Flag C: The subsequent letter I sent to the Home Office earlier this week.

Flag D: A complete draft of the White Paper. N.B. although this is dated 9 October, it does not include the further revisions circulated by Douglas Hurd on 4 October (Flag A).

Flag E: A brief just prepared by the Cabinet Office summarising the position on all the main outstanding issues.

Brian Griffiths will be letting you have before Thursday's meeting another note setting out his latest views following further discussions he has been having.

Pr G.

PAUL GRAY

14 October 1988

SLHBDI

CONFIDENTIAL

cc BUP
cc BG ✓

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PRIME MINISTER

MINISTERIAL GROUP ON BROADCASTING SERVICES (MISC 128)

BROADCASTING WHITE PAPER

CONCLUSIONS

1. You will wish the Group to reach a clear view whether the draft White Paper circulated by the Home Secretary on 14 September, as amended by the revised passages he circulated on 4 October, is now ready to go forward to the Cabinet.

2. Subject to the Group's agreement, the White Paper will be considered by the Cabinet at the meeting on 27 October and published as soon as practicable thereafter, during the overspill. (The precise day of publication is still being considered by Mr Ingham, as part of the programme for early announcements.) At this meeting of MISC 128 the Education Secretary will be present, and the Foreign Secretary will be represented by Mrs Chalker. This, rather than Cabinet, is the occasion for them to register any comments.

3. There have been some changes of direction since MISC 128 last met and you will wish to be satisfied that the overall balance of the package has now come out right. You will particularly wish the Group to reach decisions on the following outstanding policy issues, which are discussed under "Main Issues" below.

- a. Local services and transitional arrangements for cable operators.
- b. Transmission.
- c. Should the new franchises for commercial services be for fixed periods or open-ended?
- d. ITN and the provision of news services on Channel 3.
- e. Subscription and night hours services.
- f. Options for Channel 4.

BACKGROUND

4. The present review of broadcasting policy started with the Peacock Report in July 1986. Legislation must be enacted in the 1989-90 session to enable new arrangements to take over from the present ITV franchises at the end of 1992. The main decisions so far taken by the Group, and reflected in the draft White Paper are

- (i) the introduction of competitive tendering and the lifting of public service broadcasting requirements from Channel 3;
- (ii) the replacement of the IBA and the Cable Authority by a new Independent Television Commission;

- (iii) the authorisation of a new Channel 5 and, possibly, a new Channel 6;
- (iv) the provision of an enabling framework for technology-neutral local services, embracing both cable and MVDS;
- (v) the enablement of subscription on both the BBC and independent television;
- (vi) strengthened "consumer protection" on programme standards; and
- (vii) provision for the deregulation and expansion of radio under a new Radio Authority.

5. The fundamental issue throughout this policy review has been to strike the right balance between, on the one hand, deregulation, efficiency and competition and, on the other hand, the protection of broadcasting standards where they really matter. You have insisted on the establishment of a Broadcasting Standards Council to oversee the portrayal of sex and violence and you are concerned that the new regime should encourage ITN to continue to provide the news service on Channel 3, so that there is a reliable counterpoise to the BBC in that field. The final balance of the White Paper will be settled by what is said about Channel 4 and the future of the BBC, since these will be seen as the key to the general quality of television in the UK. Many opinion-formers regard British television as being of very good quality in

comparison with foreign systems, and will allege that deregulation in France and Italy has led to the lowering of standards there. They will argue that the BBC and Channel 4 constitute our bastion of high quality television which should be fully protected if deregulated competition is allowed to rule elsewhere in the system. You will wish to balance those arguments against the need to be seen to be exposing the BBC and Channel 4 to more of the discipline of the market, through making a real start with weaning the BBC off the licence fee, and developing a financial structure for Channel 4 that does not encourage it to indulge in extravagance at other people's expense.

MAIN ISSUES

(a) Local services and transitional arrangements for cable operators (Chapter VI, paragraphs 31-39, pages 47-52 of main text of White Paper)

6. These proposals for a "technology neutral" regime for local services, including the way in which existing cable operators might opt in to the new arrangements, have been worked-up since the last meeting of MISC 128. The substance should be fully acceptable to all members of the Group, and you will probably not wish time to be taken up with a detailed discussion. On presentation, however, Lord Young has commented, in his letter of 3 October, that the transitional arrangements are clearly going to be difficult and controversial, that this part of the White Paper has particularly "green edges", and that it may be necessary to adjust the transitional arrangements in the light of responses to the White Paper. He therefore suggests that the Government should seek to put a term on the period of uncertainty in the cable industry by committing itself in the White Paper to publish a

further document, setting out firm proposals for local services, not more than about 2 months after the end of the consultation period. You may wish to check that the Home Secretary, and other members of the Group, agree with Lord Young about this.

(b) Transmission (Chapter IX, revised text of White Paper)

7. Your Private Secretary's letter of 28 September conveyed your wish for further consideration to be given to this topic, and in response the Home Secretary has tabled a revised passage canvassing a provision requiring the BBC to contract out the operation of its transmitters as far as possible. You will wish to consider whether this goes far enough to meet your concern that neither the BBC nor the ITC are really appropriate to own transmitters or otherwise be in the transmission business, and that there should be a fair deal for new entrants.

8. While it is common ground in the Group that the operation of the UHF transmission system should be privatised as quickly as possible, there are two problems about the future ownership of the infrastructure that is currently shared by the BBC and IBA. First, the BBC Charter, which runs until 1996, specifically authorises the BBC to establish and use transmitting stations. Second, no policy has yet been worked-out for the regulation of a privately-owned transmission infrastructure, though some guarantee would presumably be needed against an inadequate service. (The Peacock Committee side-stepped this question by proposing a Broadcasting Transmission Authority, but that would simply be another public sector authority.)

9. The Official Group (MISC 128⁹) considered that the IBA and BBC transmission systems were so intertwined that it was impossible to privatise the IBA system alone, and that insisting on contracting out the operation of the system was all that could be done until the Charter runs out. The Home Secretary (and, I believe, the Chancellor of the Exchequer) accept this advice, though as a result of your intervention last month, the Home Secretary now acknowledges that it will be possible to require - rather than simply to ask - the BBC to contract out the running of the system to private operators. Lord Young, however, may well revert to the suggestion in his letter of 3 October that the BBC should be invited to allow the Charter to be amended now, so that provision for the whole UHF transmission infrastructure to be privatised could be included in the new legislation. The Home Secretary will oppose this, on the grounds that the future of the Charter is a high political matter, and that it would be tactically unwise to ask the BBC for their agreement to nibble at it piecemeal. He may also point out that the Government would be on poor ground to ask the BBC to dispose of its transmitters until it has developed proposals for the oversight of a privately-owned infrastructure. While a policy on this will be needed before 1996, it is not in existence now.

(c) Fixed or open-ended franchise periods? (Chapter VI, paragraphs 18 and 33, pages 40-41 and 48 of main text of White Paper)

10. At the Group's previous meeting Lord Young argued that Channel 3 licences (and by analogy other independent television licences) should be of unlimited duration. This was because, during the final years of a fixed term contract, there would be

little regulatory or market discipline over the franchise holder, since the company could in practice ignore any strictures from the regulatory authority without fear of losing its licence and similarly there would be little risk of a takeover during this period. The Home Secretary, on the other hand, was concerned that, with unlimited licences, it would be very difficult to make any changes to the system, for example, to adjust either the geographical boundaries or the time-slots operated by the different licence-holders. The Chancellor of the Exchequer was concerned that with unlimited licences the exchequer would benefit only once from the competitive tender procedure. In summing up the discussion, you suggested that it might be necessary for the White Paper to set out both sides of the argument. Paragraph 18 of the Home Secretary's text is drafted accordingly, but expresses a preference for a fixed term of 8 years, subject to considering any views that might be expressed before the legislation is drafted. Lord Young's letter of 3 October, however, repeats his preference for open-ended licences, and asks that the arguments in paragraph 18 should be reversed so as to express a strong presumption in favour of the open-ended approach.

11. So far as we know, the position remains that the Home Secretary and the Chancellor are content with the present draft (though they would ideally prefer to announce a clear decision in favour of fixed term licences) while Lord Young will argue for precisely the opposite approach. When this topic came up at your bilateral with the Home Secretary on 27 September the Home Secretary recalled how the present drafting of the White Paper was

decided at the last MISC 128 meeting as a deliberate compromise designed to accommodate the difference of views in the Group, and you agreed with him that the present draft paragraph 18 was right. You will probably wish to stand by the Home Secretary on this matter, therefore, unless some totally new point should be injected into the discussion.

(d) ITN and the provision of news services (Chapter VI, paragraph 12 of revised text of White Paper)

12. Throughout the Group's work you have been concerned that the new arrangements should not so undermine ITN that the BBC were presented with a virtual monopoly of television news. The arguments for freer competition in the provision of news, were, however pressed by other members of the Group, particularly the Chancellor, and at the meeting on 9 February you summed up that the Group were content in principle that ITV companies should be given the option to untie themselves from ITN, provided that there was an effective mechanism for ensuring that the BBC did not develop a monopoly in the provision of news programmes. By the time that this decision was incorporated in the first draft of the White Paper, however, the depth of competition that could be foreseen between Channels 3 and 5 and the various satellite services had become more apparent, and this added force to your original anxieties. You therefore asked the Home Secretary to reconsider the matter, and he has produced the revised text which broadly proposes the maintenance, for Channel 3 alone, of the present statutory underpinning for ITN. The Chancellor's letter of 6 October to the Home Secretary, however, records his preference for the decision that the Group took earlier in the

year. You will doubtless wish to make it clear that you fully support the thrust of the Home Secretary's second thoughts, and you may wish to comment that the broadcasting environment has changed since the Group took its provisional decision in favour of enabling contractors to untie from ITN.

13. You will also wish to consider whether the Home Secretary's proposals for bringing outside shareholders into ITN are acceptable. You will recall that at your bilateral with him you expressed a preference for outside shareholders being in the majority, since the television companies were not altogether reliable. In his new draft paragraph the Home Secretary is proposing that a majority of outside shareholders is an eventual aim, that detailed arrangements will require further consultation, but that one model would be for the new legislation to start with Channel 3 licencees holding the majority, or all, of the shares in the news organisation, with the ITC being under a duty to ensure the selling of shares to outsiders at a later time. It would clearly be impracticable to insist on an outside majority from the start, and you may think that the Home Secretary's draft represents a reasonable approach.

(e) Subscription (Chapter VI, paragraph 44, page 55 of main text: Chapter III, paragraphs 12-14 of revised text)

14. At their meeting on 17 December 1987 the Group agreed that the BBC should be empowered to charge subscriptions, that this should be reflected in the level of the licence fee from 1991 onwards and that the BBC should lose one of its night-time channels, the franchise for which should be awarded by the ITC on

the basis of a competitive tender. They also agreed that independent television should be empowered to charge subscriptions, that the night hours on Channel 3 should be the subject of separate licences, and that Channel 4 should be allowed to retain its night hours. In his minute of 19 August the Home Secretary suggested that the use of only one channel of night hours would provide an insufficient basis to push the BBC very hard down the road to subscription, and he proposed that the BBC should therefore retain both its channels at night, on the presumption that it would use them for subscription services. You believed, however that this would simply serve to increase the BBC's dominance, and perhaps make it a market-leader in subscription, and the Home Secretary has therefore reverted to the original proposition that the BBC should keep only one channel of night hours, subject to the Government's intention after April 1991 "to agree licence fee increases of less than the RPI increase in a way which takes account of the BBC's capacity to generate income from subscription."

15. Since subscription is seen as the route for the eventual abolition of the licence fee, the main question is the balance between that long-term objective and the operating latitude that the BBC are given in the meantime. Enabling the BBC to carry out extensive subscription experiments may carry risks but there seems to be no other line of attack on the licence fee. (You may wish to note that paragraph 12 of the revised draft says that "The Government looks forward to the eventual replacement of the licence fee, the timing to depend on experience gained of the

impetus and effects of BBC and other new subscription services.").

16. The Chancellor and Lord Young will want to raise rather different points on subscription.

(i) Lord Young is content that one set of night hours on the BBC will be a sufficient "soft start" with subscription, but he is very concerned that the BBC apparently intend to use their night hours for specialist services such as the one proposed for doctors. He does not believe that this would represent an adequate trial of subscription, and he believes that it is in any event a very wasteful use of scarce spectrum. The Home Secretary, on the other hand, has so far tended to take the line that the BBC should be allowed to experiment with subscription in whatever way they like, under the spur of the Government's pressure on the licence fee.

(ii) The Chancellor fears that subscription experiments confined to one set of BBC night hours will be too limited to move subscription along as fast as the Government wishes, though he would like to see the White Paper threatening an actual reduction in the licence fee to reflect the possibilities of subscription. In order to stimulate subscription, he would like the White Paper to keep open the option of requiring some of the new commercial services to be financed by subscription (which, we believe, could probably only be achieved by prohibiting advertising). You may remember that your first reaction to the night hours proposals was that such restricted experiments would not be a convincing

demonstration of subscription, and to that extent you may sympathise with the Chancellor's approach. But the idea of overriding operators' commercial judgement by a requirement for subscription financing would be a large change for the Group to accept at this late stage. The Group will particularly need to consider the implications for BSB if competition for the subscription sector of the market were stimulated by the Government; and whether it would be reasonable to accept the loss of advertising outlets that a requirement of subscription financing would carry with it.

17. All these strands of argument about subscription ultimately depend on assumptions about technological advance in this field, and the speed at which it will be accepted by the public. This scene is changing very fast. You may, therefore, first wish to ask Lord Young to bring the Group up to date on the present intentions of Astra and BSB, and the likelihood of the public being accustomed to pay-as-you-view television before 1993.

(f) Channel 4 (Chapter VIII, paragraph 23, revised text of White Paper)

18. The Group have had a number of discussions about Channel 4, and various financial structures for it have been proposed. The Home Secretary feels strongly that privatising Channel 4 as a profit-making company would inevitably drive its programming down-market, and Lord Young has agreed with that view. The Chancellor, on the other hand, has consistently argued that full privatisation is the only effective route to efficiency, and that Channel 4's remit could be effectively policed by the regulatory body. At the

Group's previous meeting it was confirmed that the distinctive Channel 4 remit must be preserved, and that the channel should sell its own advertising, but no further decisions were taken.

19. In his original text of the White Paper the Home Secretary exposed the options of full privatisation and of a non-profit-making body whose income would be topped up by the ITC (from the Channel 3 contractors) if its own advertising revenue was insufficient to support the remit. You discussed this in detail with the Home Secretary in your bilateral with him on 27 September, emphasising that you would be very concerned with any proposal that enabled Channel 4 to live extravagantly and then put its hand in other people's pockets. The Home Secretary, on the other hand, said that he felt more and more strongly that a convincing guarantee of the Channel 4 remit would be a vital factor in the White Paper's reception, and you finally agreed that the White Paper should canvass a range of options. The Home Secretary's revised text therefore illustrates his original two options plus a new variant that is very close to the present arrangements, but with Channel 4 selling its own advertising. The Chancellor has commented that this last option would surely give Channel 4 too little incentive for efficiency.

20. Your Private Secretary's letter of 10 October also suggests that it would be helpful if the options displayed in the White Paper were expanded to include the possibility of a private company which incorporated both Channel 4 and Channel 5. That approach would help in the creation of a commercially viable

"third force" able to stand alongside the BBC and Channel 3.

21. As you may know, the idea of a link between Channel 4 and Channel 5 is one of the options being canvassed by Channel 4 (notably Mr Michael Grade) as possible ways of safeguarding their remit. Channel 4's main anxiety is that their present good performance in securing advertising revenue is no guide to what will happen in the far more competitive environment that is taking shape. They fear that the additional competition of advertising on satellite and on Channel 5 will simply mean that there will not be enough advertising money to support their remit, and that some additional source of finance therefore needs to be tapped. If some form of subscription from the rest of the independent sector cannot be maintained, then Channel 4 believe that they would be better able to protect their distinctive remit if they were twinned with Channel 5 than if they were forced to stand on their own two feet.

22. While there is an attractive ring to the idea of a "third force" that would include quality programming and would stand against the BBC, you may wish to be cautious about endorsing this model too specifically. While one can understand Channel 4's reasons for proposing it as a second best option, it is not clear what wider advantage there is in wrenching Channel 4 away from its link with Channel 3, simply to amalgamate it with Channel 5. The prospective regional contractor on Channel 3 might well feel that he faced disproportionate competition from a combined C4/C5 operation that embraced two commercial channels broadcast

nationally. And a Channel 4 that was run on a profit-making basis alongside Channel 5 might not even be altogether successful in securing public confidence that the distinctive remit would be maintained.

23. We do not know what line any other members of the Group are likely to take on the C4/C5 proposal. You may wish to say that the Government's twin aims must be to secure the distinctive Channel 4 remit, but in a way that encourages efficiency rather than dependence. You are aware that the C4/C5 option is currently attracting attention, and you would like to hear the Group's general reaction to it. But the essential thing is that the options exposed in the White Paper should make the Government's objectives plain.

HANDLING

24. You may wish to welcome the EDUCATION SECRETARY and MRS CHALKER. (We understand that the Education Secretary has no specifically departmental points on educational broadcasting, though the Foreign Secretary may be writing before the meeting on the international dimension. Both Ministers may have general political contributions.)

25. You may then wish to say that you hope the White Paper can now be published in the overspill, with Cabinet consideration on 27 October.

26. After the Home Secretary has introduced the White Paper, you may wish to work through the outstanding points, in the order in which they appear under "Main Issues" above.

27. Assuming that no points are left unresolved, you will wish to invite the HOME SECRETARY to circulate the draft White Paper to Cabinet, under cover of a paper that he should discuss with the Chancellor and Lord Young as necessary.

A.J.L.

A J LANGDON

14 October 1988

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cc Mr Kington (cc)

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

12 October 1988

BROADCASTING WHITE PAPER

You mentioned that your Minister wanted to look at the present draft of the Broadcasting White Paper, with a view to considering any proposals that would have a bearing on broadcasting of the arts.

I now enclose the latest draft for your Minister to look at. I would, however, stress two points:

- (i) This is still very much work in progress and the latest draft is yet to be considered by MISC 128;
- (ii) the present discussions are being conducted in a small group, and it is important for the papers to be handled on a strictly confidential basis. I should, therefore, be grateful if you could avoid giving them a wide circulation.

If your Minister has any comments he would like MISC 128 to consider, I should be grateful if you could let me know by 18 October.

PAUL GRAY

Martin le Jeune, Esq.,
Office of the Minister for the Civil Service.

CONFIDENTIAL

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the department for Enterprise

CEB

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

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
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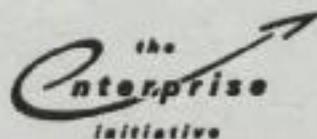
ITV LEVY FOR CONTRACT EXTENSION PERIOD

at Hap PTC
In his letter to you of 12 September Douglas Hurd invited me to comment on the concerns which have been expressed in some quarters about the effect on the UK film industry of moving to a revenue-based levy for the ITV contract extension period.

I have indeed been lobbied by the film industry, who are worried that the change might seriously reduce, or even put an end to, ITV investment in feature films. The incentive to such investment which a profits-based levy provides is however a distortion; and while we should be prepared for further articulate lobbying on this issue, I do not believe we should allow it to divert us from moving to a revenue-based levy.

It has also been put to me that moving to a revenue-based levy for the contract extension period could undermine progress on independent access to ITV. I would view such an outcome with some concern. But I am reluctant to accept that the achievement of our target on independent access should be dependent on continuing with a tax regime which we otherwise regard as unjustified. If moving to a revenue-based levy does lead to a loss of momentum on independent access we shall simply have to consider whether other means can be brought to bear to ensure that our target is achieved.

In summary, therefore, I am not convinced that the arguments which have been advanced on films and on independent access provide adequate grounds for shifting from our original



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the department for Enterprise

position that a revenue-based levy would be the correct approach for the contract extension period.

I am copying this letter to the Prime Minister and other members of MISC 128, and to Sir Robin Butler.

Y. L. David

BROADCASTING: Kioles

Pt 7



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bc: BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

10 October 1988

ms

Dear Philip,

BROADCASTING WHITE PAPER

The Prime Minister was most grateful for the Home Secretary's further minute of 4 October and the enclosed revised passages for the draft White Paper. She has also seen the letters of 3 October from the Secretary of State for Trade and Industry, and 6 October from the Chancellor of the Exchequer.

I should be grateful if you and copy recipients could ensure that this letter is circulated on a restricted basis.

The Prime Minister welcomes the broad direction of the Home Secretary's proposed adjustments. It has now been arranged for MISC 128 to consider the issues on Thursday 20 October. The Prime Minister will want to consider the papers further before that meeting, but she has two immediate reactions.

First, she continues to attach importance to stimulating the development of subscription income by the BBC, and has noted that both the Secretary of State for Trade and Industry and the Chancellor of the Exchequer have put forward suggestions for achieving this.

Second, the Prime Minister thinks it would be helpful to expand the description of the options for the future constitution and structure of Channel 4 to include the possibility of the creation of a private company which incorporated both C4 and C5. A possible advantage of such an approach would be to improve the prospects of the creation of a commercially viable "third force" able to stand alongside the BBC and the independent sector based on Channel 3.

I am copying this letter to the Private Secretaries to members of MISC 128, the Foreign Secretary, the Secretary of State for Education and Science, and Sir Robin Butler.

Yours,
Paul

PAUL GRAY

Philip Mawer, Esq.
Home Office

2/15

I suggest you focus on Brian Griffith's commentary at Flag E. You will want to consider whether, in the light of the comments by Brian and others, you want to register any further points in advance of the MISC 128 meeting, or simply now leave things until that meeting.

The key outstanding issues are:

Channel Three News

The Chancellor (Flag D) is unhappy about the new approach, which he characterises as entrenching the position of ITN. His reaction comes as no surprise. But all the other key players are now signed up to the revised approach and, if necessary, you will simply need to argue the point out with the Chancellor at MISC 128.

Brian has one remaining worry on the revised Hurd proposals. Mr. Hurd has sought to qualify the position reached at your last meeting about the C3 companies holding only a minority of the shares in the news company. He suggests that initially they may still need to hold a majority. Brian argues that they should only have a minority from the outset.

Night hours/Subscription

There is strong support from the Chancellor and Lord Young for a more radical approach designed to move as quickly as possible towards subscription. Mr. Hurd continues to embrace this idea very cautiously. Brian recommends that you support Lord Young's proposal that the night hours subscription channel should be directed towards programmes for mass audiences, so maximising subscription revenue.

Channel 4

As agreed at your meeting, Mr. Hurd's revised material sets out a number of different options for Channel 4 without a firm recommendation. But it is clear Mr. Hurd is still hankering

after a non-profit approach. The Chancellor, on the other hand, strongly supports a need for a solution that maximises efficiency.

Brian picks up the point raised by Jeffrey Sterling about the danger of the BBC and C3 creating a powerful duopoly, and suggests that the White Paper should also include as a possible option the creation of a Third Force via a private company which incorporates both C4 and C5.

Transmission

Mr. Hurd has responded only tentatively to your wish for more competitive arrangements in transmission. Both Lord Young and Brian argue a strong push should be given to privatising transmission.

Conclusion

Are you content now to leave matters until the MISC 128 discussion?

Or *We must decide which point we want to pursue. I think (iii) as an option*

Do you want me to minute out your views that *and (ii) supported by the Chancellor - Lord Young.*

- (i) the C3 news company should, from the outset, have only a minority shareholding by the C3 licensees? *I would leave*
- (ii) the BBC should maximise subscription revenue from the night hours? *the other*
- (iii) the further option of a "Third Force" combining C4 and C5 should be included in the options for C4? *for the time being.*
- (iv) the option of privatising transmission should be advocated? *no*

PCG.
(PAUL GRAY)
7 October 1988

PRIME MINISTER

7 October 1988

BROADCASTING: SIR JEFFREY STERLING'S VIEW

pp on Pr 6.

My own comments are as follows:

1 The Third Force

I very much support his view of the need for a third force in terrestrial television which will provide real competition to BBC and C3. I also see considerable merit in combining C4 and C5 in a private company. The real advantage is the likely increased market share from being able to schedule two channels. This is a far better result for the system as a whole than having C4 owned by the ITC. If C4 and C5 were combined, C4 would still be protected by:

- a) a clearly defined remit,
- b) ITC having a responsibility to ensure the remit was kept,
- c) a separate board for C4 within the private holding company, possibly with say two non-executive directors appointed by the ITC.

2 Yes. Television companies should be given access to BT fibre optic network.

3 Yes. Retain maximum flexibility in new statutory framework.

4 Tendering

Very difficult to keep out someone like Robert Maxwell if he

sells his newspaper interests. Another reason for ensuring that the chairman and members of ITC are first class.

5 BSB. I agree - it certainly looks an uphill task for Holdsworth.

6 Advertising. Jeffery Stirling is right to argue that in a more competitive world advertisers will be able to demand a more specific placing of adverts. While however this may raise quality in some cases; it may equally produce rubbish in others. Difficult to predict the net result.

7 Idea on vesting is interesting. Needs to be worked up.

8 Agree. The best way of tackling the BBC is indirectly.

9 John Birt as Chairman of IBA. Great integrity and very professional but very bad at handling people. Not an obvious chairman. Others from within the system would be better, eg Christopher Bland LWT.

Brian Griffiths

BRIAN GRIFFITHS

BROADCASTING WHITE PAPER

map
The minute from Douglas Hurd following your meeting with him is as major step in the right direction, but the proposals still need some changes.

News Provision on Channel 3

This is fine except for the ownership of the News Channel.

There is still a reluctance to ensure greater freedom for the News Company by having ITV companies restricted to holding only a minority interest.

The Home Secretary argues "I agree that under the new provision ... perhaps a majority, would eventually be held externally, by companies without licenses or any television channel." But it is all very tentative.

The particular procedure suggested in the revised draft is both clumsy and unnecessary:

- initially C3 licencees hold the majority or all of the shares in the News Company,
- there would be a service contract which would establish the organisations' commercial value,
- at an appropriate time shares, perhaps the majority, could be sold to licensees.

However, such a service contract would hardly establish the value of the organisation as the ITV companies would be on

both sides of the negotiations!

It would be far better to make it clear from the start that the company which tenders for News on C3 should have a majority equity participation of non-licensees.

Recommendation

Seek change on these lines.

BBC Night Hours

Allowing the BBC to retain the night hours on only one channel is a step forward.

The Home Secretary however proposes leaving to the BBC the decision as to whether it uses its night hours for specialised services or general audience appeal.

As the reason for giving the BBC the use of the night hours is to develop subscription with a view to it ultimately replacing the license fee, David Young is surely right in proposing that we should be directing them to provide programmes for a mass audience and not specialised services which appeal to a very limited market.

Recommendation

Require the BBC to maximise revenue from the night hours.

Channel 4

The Home Secretary still hankers after a non-profit organisation, but nevertheless sets out three different options.

One option, however, which is not mentioned is that raised by Jeffery Stirling - namely the creation of a Third Force in broadcasting through a private company which incorporates C4 and C5.

Recommendation

This option should be mentioned implicitly.

Transmission System

This is the most unsatisfactory part of the minute.

It is a prescription for minimum change. Personally, I fail to see why the White Paper cannot say explicitly that the government's intention is to privatise the whole of the transmission system. If we did, I suspect the BBC would wish to comply.

If the BBC were to create problems, there is no reason why we cannot privatise IBA transmitters. To argue that on technical grounds they are "entwined" needs critical examination. It is reminiscent of all the arguments used when it was suggested that BT should be cut off from the Post Office; this produced a howl of technical protests, all of which were sorted out.

If the government makes its intentions clear I believe we shall face no real difficulty in 'disentwining' the IBA and the BBC.

Recommendation

The Home Secretary needs to make clear the intention to privatise transmission.

This will require both the IBA and the BBC to draw up plans accordingly.

Such a transfer should be possible for the IBA fairly soon; the BBC may also agree - almost certainly will, but at worst it would be postponed till 1996.

Brian Griffiths

BRIAN GRIFFITHS

Broadcasting : Finance Pt 7



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

6 October 1988

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

A handwritten signature in dark ink, appearing to read 'Douglas Hurd'.

BROADCASTING WHITE PAPER

I have now seen your response to the Prime Minister's ^{with P13} comments on the draft White Paper you circulated on 14 September.

On night hours and subscription, I remain concerned that we may not be giving subscription a big enough push, if the only clear subscription element in the package is the night hours on one BBC channel. My letter of 31 August suggested that the White Paper should leave open the possibility of requiring subscription finance for some commercial licenses at least in the short term. I continue to think that that would be helpful. We could then judge, in the light of reactions to the White Paper, whether we need to insist on a degree of subscription financing, eg for channel 5 or night hours licenses. Without such positive discrimination, our opportunity to establish a consumer-responsive market may be lost. Greater emphasis on the development of subscription could also help deal with the arguments we will face about quality.

I also share the Prime Minister's view that the White Paper should express strongly the overall objective of progressively replacing the BBC license fee by subscription. With that aim in view, the White Paper should not rule out an actual reduction in the license fee reflecting the earning potential of subscription. I agree we would need to consider the impact of such a move in the circumstances of the time.



On another matter, in reformulating your proposals about new services, you have gone back on our earlier decision to end the ITN monopoly and its protected financial position. This seems to me likely to damage ITN itself in the longer term by eliminating any pressures on it for improved efficiency. It also seems out of keeping with the White Paper's general approach. We obviously need to ensure the continued existence of a high quality news service but I remain to be persuaded that this cannot be done by the explicit reinforcing of licence conditions dealing with news and current affairs coverage, which you also suggest.

Finally, you are aware of my views on the appropriate regime for Channel Four. But whichever of the options paraded in your first draft we eventually decide on, the third option in your latest draft surely goes too far in suggesting that a final arrangement might be one which gave Channel Four no incentive to efficiency.

I am copying this letter to the Prime Minister, the members of MISC 128 and Sir Robin Butler.


NIGEL LAWSON

From: THE PRIVATE SECRETARY

CCPS



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

5 October 1988

Dear Dominic

*not seen by DM
file copy attached*

BROADCASTING WHITE PAPER

You may have noticed that there was an error in paragraph 3 of the Home Secretary's minute to the Prime Minister of 4 October. In the fourth sentence the words "divided stream" should read "dividend stream". Apologies for the mistake.

I am copying this letter to the Private Secretaries to recipients of the Home Secretary's minute.

*Yours
Catherine*

MISS C J BANNISTER

Dominic Morris, Esq.

CONFIDENTIAL

ccfu



QUEEN ANNE'S GATE LONDON SW1H 9AT

4. October 1988

Dear David,

NBRM
RACG
7/12

BROADCASTING WHITE PAPER

Thank you for your letter of ^{11/10} 23 September.

I take your point about the trade-off between MVDS at 12 GHz and the options open to us for securing additional DBS frequencies. We will need to return to this point when we review the options after the orbit conference in Geneva. In the meantime I am glad to hear that you have no difficulty with the way the draft White Paper deals with this point.

I note what you say about the possible ambitions of the Spanish Government to secure additional DBS frequencies in the same orbital position as the UK. Although it would clearly be a pity if this happened (particularly as they are so far less advanced than us in using their initial five channel allocation) I agree that it would be a mistake to try to take pre-emptive action.

You mention the possibility of trying to secure additional DBS frequencies at the orbital position occupied by Astra (19oE). I can see that this option may well have some technical attractions. But we have to bear in mind that the orbital position at which we tried to seek additional frequencies would have implications for the services already operating from that position. If we are faced with a choice between 31oW (which is of course the option we have had in mind so far) and 19oE I would have a strong preference, all things being equal, for the former. This would be the natural option to choose as it would complement the services operating in our initial five channel allocation. To go for 19oE would, in contrast, be perceived, whether we intended it or not, as support for Astra and a vote of no confidence in BSB. Among other things this might prejudice BSB's chances of raising the 400m of capital which they will need after launch next autumn.

I am copying this letter to the Prime Minister, the Foreign Secretary, Members of MISC 128 and to Sir Robin Butler.

Young,
David,

The Rt Hon Lord Young of Graffham

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BROADCASTING: BBC FINANCIO P16





CCP/6
CCP/54

PRIME MINISTER

BROADCASTING WHITE PAPER

top enc.
I am grateful to you for your comments on the draft White Paper as conveyed in your Private Secretary's letter of 28 September. Now that we can see the package of reforms as a whole for the first time I recognise the case for making some adjustments to it. I have gone through the same process myself. I discuss in turn below the points you raise.

News Provision on Channel 3

2. The draft White Paper envisages, in paragraph 11 of Chapter VI, an obligation on each Channel 3 station to show news and current affairs. Since this is, and is likely to remain, the most popular channel in competition with the BBC, I believe we need to be more explicit about this. We should make clear that the obligation should be to show high quality news and current affairs dealing with national and international matters, and that the ITC should have a duty to ensure that the news (and possibly also current affairs) is shown during the main viewing periods. We want to avoid the possibility that licensees might shuffle news into the non-peak hours - say in the middle of the afternoon or very late at night. On the other hand, we must be careful not to reintroduce the whole panoply of bureaucratic regulation of scheduling which the present system entails, and which we are agreed ought to go.

3. This would meet some of our objectives, but, like you, I believe there is a strong case for going further to ensure that there are adequate institutional arrangements to provide a news service which, at the level of quality achieved by the ITN, is necessarily expensive. A modified version of section 22 of the Broadcasting Act 1981 would impose a duty on the Independent Television Commission (ITC) to ensure that there was at least one body effectively equipped and financed to provide news on its Channel 3 service. Channel 3 licensees would be required to finance the organisation and in exchange would have the opportunity to own shares in it. The organisation should provide news to Channel 3 licensees under an arm's length service contract, incorporating a profit margin sufficient to generate a divided stream. However, whereas the present ITV contractors hold all the shares in ITN - and the fact that they will not automatically cease to do so if they lose their franchises complicates the position - I agree that under the new provision shares, perhaps a majority, would eventually be held externally, by companies without licences on any television channel. It may be necessary for the licensees to hold the majority of shares initially until a record of trading has been established; the shareholding should then be widened to bring in external shareholders. The ITC would have powers to ensure that the news service provided by this body was shown by the stations and, as already mentioned, that this should be at proper times.

4. I attach a revised passage covering these points (Chapter VI, paragraph 12). If colleagues agree to this approach I believe we should drop as no longer needed the suggestion in paragraph 14 of Chapter VI of the White Paper that one of the licences offered for Channel 5 would be for a service with a substantial proportion of news and current affairs among its output.

BBC Night Hours

5. In my minute of 19 August I explained the case for allowing the BBC to retain the night hours on both channels on the basis that this would assist in moving the BBC over to a subscription basis. But there is a case for removing one of its channels to reduce its dominant position and to avoid the risk that it could become the market leader of subscription services. The Trade and Industry Secretary has already expressed doubts about the approach I canvassed and I would be content, if that reflects the general view of colleagues, to revert to our earlier decision to remove the night hours from the BBC on one of its channels. Probably the best way of doing this would be to hand the frequency to the ITC who would allocate it by competitive tender, on a similar basis to the night hours on Channel 3. The BBC would then have to do its best to introduce subscription on its remaining channel, though whether it found it best to proceed through further specialised services like its present one to doctors or by more general entertainment channels is something we might leave to them. Obviously our ability to reduce the licence fee in recognition of subscription income would be less than it would otherwise have been, but we can nonetheless make it clearer that replacement of the licence fee is our overall objective. I do not myself believe that we should be able to achieve this objective quickly, but until we have some experience of subscription there can be no certainty about this.

6. I attach a revised passage for Chapter III.

Channel 4

7. I welcome your view that the White Paper should set out options as to the future constitution and structure of Channel 4. It is already clear that when the White Paper is published much attention will be focussed on our proposals on this. I am myself increasingly conscious of the need to

ensure continued and adequate competition for the BBC and its audiences across the full range of programming (including quality programming). We have all agreed that Channel 4's special remit must be preserved. We need to make sure that Channel 4 provides a bulwark of quality broadcasting in the independent sector which stands comparison with the BBC. While we agreed that advertisements on Channel 4 must be sold separately from those on Channels 3 and 5, which is the main change which the advertisers want to see on Channel 4, there are of course different ways of achieving it. I attach a revised passage setting out a rather fuller discussion of the options for constitutional change for this purpose. My own view remains that Channel 4 should stay as a non-profit making body, and that a fully commercial entity would find it difficult to fulfil its special remit. Having, like you, looked at our proposals in the round, and thought further about the likely course of public and Parliamentary debate on quality, I hold this opinion more strongly than before, but am content that we should at this stage simply describe the options.

Transmission System

8. I have looked again at what the draft White Paper says about transmission. As to the BBC, I agree we could go further than officials proposed and that we should convass a provision, parallel to that envisaged for the ITC, requiring the BBC to contract out as far as possible the operation of its transmitters. If the White Paper says that is what we want to happen, there is a reasonable prospect that the BBC will proceed to do it without waiting for legislation, and we could take a final decision on whether it is necessary to include a specific provision in the Bill nearer the time. I am persuaded that while the present Charter is in force - until the end of 1996 - it would be difficult to go further and to require the BBC to divest itself of transmission sites, transmitters and associated equipment. This is because the Charter expressly authorises the BBC to establish and use transmitting stations.

9. As to the ITC, you question whether the ITC should own the transmitters. Paragraph 5 of the Official Group's report (MISC 128(88)11) suggests that it would be sensible for the ITC to take over the transmission infrastructure (e.g. sites and masts) presently owned by the IBA (and accordingly in the public sector). They argue:

"The extent to which the IBA's network is entwined with that of the BBC makes it impractical to contemplate privatisation of the infrastructure until the Corporation's Charter comes up for renewal."

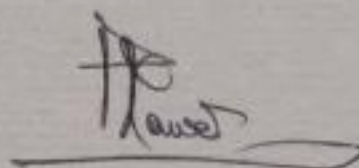
10. It might be possible to go beyond this and to transfer the IBA's assets to private sector contractors appointed by the ITC. But it is not clear to me that there is much purpose in doing so when we can achieve our main objectives by other means: namely requiring the ITC to contract out the operation of servicing of the transmission system. Going further would create real practical problems. These stem from the fact that there are relatively few UHF transmitters, that all existing aerials are directionally attuned to them, and that the IBA/BBC system is, for good technical reasons, intertwined. For example, it would be difficult, on that approach, for the ITC to replace a transmitter contractor, perhaps because of incompetence, unless of course the departing contractor were required to sell the sites etc to the newcomer, in which case his "ownership" would effectively be a sham. It would be worse if the dismissed contractor were able to retain the infrastructure given the inter-relationship with the BBC and the fact that the present transmitters occupy the most suitable sites and that aerials are aimed at them.

11. Accordingly I believe that in the case of the ITC, too, we should await the review of these arrangements when the BBC Charter falls in at the end of 1996. I attach a revised version of the Chapter which reflects my view that we could require the BBC, as well as the ITC, to contract out

the operation of the transmission function. The passage also makes it clear that when the ITC and the BBC do contract out this function it should be to more than one private sector operator: our objective should be to foster the development of a competitive private sector transmission capacity.

12. I thought it would be helpful to circulate these revised passages straightaway, without waiting to make the consequential editorial changes in the rest of the text. I hope that they, together with the draft as a whole, will commend themselves to you and to other colleagues and that we can consider them at the forthcoming meeting of the Ministerial Group.

13. I am sending a copy of this minute to the other members of MISC 128, to the Foreign Secretary, the Secretary of State for Education & Science and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Hawes', with a long horizontal flourish underneath.

4 October 1988

APPROVED BY THE HOME SECRETARY
AND SIGNED IN HIS ABSENCE

NEWS SERVICES ON CHANNEL 3

CHAPTER VI, PARAGRAPH 12

12. Taken together these requirements will ensure that Channel 3 helps forward the main objective of enlarging viewer choice. The first reflects the Government's agreement with the Home Affairs Committee (paragraph 171 of their Report) that the regional basis of what will become Channel 3 is crucial. The third will ensure - on the same basis as for national commercial radio services - that the Channel is not monopolised by programmes of appeal to only a single target audience. The fourth and fifth will ensure a competitive programme production market. It will be open to Channel 3 licensees to contract out all their programme making if they find it efficient to do so. The second requirement, concerning news, would in itself do much to ensure that the public does not lack opportunities to keep itself informed. However, the Government believes it necessary to go further, in the case of Channel 3 alone, to ensure that there is adequate competition to the BBC and to guarantee the continued availability of a high quality news service of the kind which ITN has provided throughout the existence of the ITV system. ITN has its existence by virtue of section 22 of the Broadcasting Act 1981, which requires there to be at least one news organisation in which each ITV contractor must be given opportunities to invest. The Government intends to

retain this provision in modified form: it will impose a duty on the ITC to ensure that there is at least one body effectively equipped and financed to provide news on its Channel 3 service. Channel 3 licensees would be required to finance the organisation and in exchange would have the opportunity to own shares in it. However, whereas at present all ITN shares are held by ITV contractors, under the new provision some shares would be held externally, by bodies without licences on any television channel. The Government envisages that eventually a majority of shares might be held by non-licensees. The detailed arrangements require further study and consultation, but one approach would be as follows. Initially the Channel 3 licensees might hold the majority, or all, of the shares in the news organisation or organisations. The supply of news to Channel 3 would be governed by a service contract which would, unlike the funding for ITN at present, include a profit element to establish the organisation's commercial value. The ITC would be under a duty, at the appropriate time, to ensure that some, perhaps the majority, shares were sold to non-licensees. No external investor should hold more than 5% of the shares. Although not having general control of scheduling, the ITC would have powers to ensure that the news service provided by one or more of the news organisations was shown by Channel 3 stations and, as already indicated, that this should include exposure during peak viewing times. As a necessary safeguard, the ITC would have power to withdraw, after adequate notice, its approval of a news organisation which failed to deliver an acceptable service.

BBC NIGHT HOURS

CHAPTER III, PARAGRAPHS 12, 13 AND 14

12. As new television services proliferate the system of financing the BBC television and radio services by a compulsory licence fee alone will become harder to sustain. Though the Government accepts the advice of its consultants that a sudden, wholesale switch to subscription would be undesirable and damaging, there should be a greater role for subscription. The Government looks forward to the eventual replacement of the licence fee, the timing to depend on experience gained of the impetus and effects of BBC and other new subscription services. So the Government has decided that the right course for the present is to encourage the progressive introduction of subscription on the BBC's television services. Account will need to be taken in due course of the implications for financing of BBC radio services.

13. The Government accordingly proposes to authorise the BBC to encrypt its services so that it can raise money through subscription. The extent and pace of the move towards subscription will be for the BBC to judge in the first instance. But the BBC will have in mind the objective of replacing the licence fee; and, to provide a financial incentive, the Government intends after April 1991 to agree licence fee increases of less than the RPI increase in a way which takes account of the BBC's capacity to generate income from subscription. The Government has informed the BBC of these decisions and will be discussing the details further before firm targets are set. The Government proposes to authorise the BBC to run subscription services during the night hours. The BBC [has already started] [plans to start soon] a downloaded service, in conjunction with a commercial partner, British Direct Television, providing information for the medical profession. It plans to run other similar services, and also to move into entertainment services, catering for particular tastes and interests, drawing on its programme archives. It will be for the BBC in this area, as more generally, to decide the best mix of programme services within the framework of financial incentives laid down.

14. The Peacock Committee proposed that the night hours (1 am to 6 am) should be removed from the BBC and other broadcasting authorities and sold for use to provide new services by the highest bidder (paragraph 652). There is, however, scope for new services to be provided in other ways. Removal of the night hours on both its channels would make it hard for the BBC to introduce subscription without running the risk of depriving viewers of valued programming which they had been accustomed to receive free. It would also hamper the BBC's plans for building substantially on its initial downloading experiment in a way which offered the prospect of substantially widening viewer choice and establishing a firm base for subscription technology. However the Government accepts the case for removing the night hours from one of the BBC's channels, and assigning it to the ITC (see Chapter VI, paragraph 14). The Government therefore proposes to allow the BBC to retain the night hours of one of its channels, on the basis that it uses it as fully as possible for developing subscription services.

CHANNEL 4

CHAPTER VIII, PARAGRAPH 23

23. The Government accordingly believes that Channel 4's special role is best fulfilled by an independent organisation subject to ITC oversight, but without direct financial or structural links to the Channel 3 licensees. The ITC would be responsible for transmitting the service, as explained in Chapter IX. Advertising will be sold separately from the advertising on Channel 3 or other channels; while this is probably best made the responsibility of Channel 4 or the ITC it might in practice choose to contract this out. But there are a number of different constitutional models which might meet these objectives, and the Government would welcome comment on the best way forward. The following list of options is intended to be illustrative rather than exclusive:

(i) The service on the Fourth Channel could be provided by a private sector company licensed by the ITC in much the same way as services on Channel 3. On this approach the programme remit would need to be clearly expressed in the form of licence conditions which the ITC would need to enforce rigorously. The licence could then be awarded by competitive tender, as described in paragraph 15. In particular it would be necessary to ensure that the Channel should continue to provide a service which, as well as being innovative and experimental, addressed a wide range of minority tastes. However, an express requirement that it should be different from all services licensed by the ITC could not sensibly be laid down as a licence condition. The Channel would be given the freedom to recover the costs of fulfilling its programming remit by its own efforts in selling air time, charging subscription or raising funds through sponsorship.

(ii) Channel 4 could remain as a non-profit making body, in the form of a subsidiary of the ITC, but again made self-sufficient in funding through the sale of advertising, subscription and sponsorship. Additionally, while Channel 4 could be funded in the first instance from its own efforts in raising money through advertising, sponsorship or subscription, this could be on the basis that the ITC would have a reserve power to top this up if necessary, to reach a predetermined minimum level, the money coming from the proceeds of competitive tender or a precept on independent television companies.

(iii) Channel 4 could remain as a non-profit making body, in the form of a subsidiary of the ITC, but instead of being made self-sufficient its revenue could be determined independently, as it is now, of its audience share or its success in raising money through advertising, subscription or sponsorship. Various mechanisms could be devised to achieve this outcome. For example, Channel 4's income could be determined by the ITC subject to Government approval by a formula, perhaps expressed as now in the form of a percentage of the advertising revenue of Channels 3, 4 and perhaps 5, combined. The money would come from advertising on Channel 4, the sale of which would be contracted out to a private sector operator independent of any ITC licensee. This would be supplemented if necessary by the proceeds of the levy, and any surplus would be creamed off by the ITC and applied to the revenue for the Welsh Fourth Channel. Channel 4's management would accordingly have no financial incentive to chase the ratings or to enlarge its audience at the expense of Channel 3.

There are competing considerations: a fully privatised Channel 4 would have greater incentives to efficiency and the Government believes this approach would be practicable; but there are fears that if Channel 4 were operated by a profit maximising private company concern about its revenue would put powerful pressure on

its adherence to its special remit, and on any regulatory structure designed to secure such adherence. On the other hand if Channel 4 remains in the public sector, and particularly if it does so under an arrangement which, like the present system, guarantees its income and accordingly insulates it from any market disciplines, then the incentive to efficiency will be diminished and, in programming matters, it may be vulnerable to sterile elitism or precious self-indulgence. The Government would welcome views on these and other possible arrangements from the industry, other interested parties and from viewers.

<mg>Min/Pas/Chan4

CONFIDENTIAL

IX: TRANSMISSION

1. The transmission networks run by the BBC and the IBA give a highly effective service to the public. They reach 99.4% of the households in the UK, providing them with a reliable, high quality signal. This is a considerable engineering achievement, and it is highly regarded internationally. As broadcasting enters a more competitive phase, the Government intends to see that high technical standards are maintained, while opening up transmission more to private sector competition.

2. Overall responsibility for spectrum management must remain with the Government. The Government believes that the ITC should have responsibility for frequency planning for all non BBC services and for overseeing the transmission of all national or quasi-national independent UHF services (ie Channels 3, 4, 5 and, possibly, 6). The Government considers that there are clear advantages in retaining a single body with responsibilities to arrange the transmission of these services, particularly as there will be a number of licensees using the frequencies in different areas, or at different times of the day or week. It will make it easier to plan the use of frequencies in such a way as to maximise coverage. There are advantages for viewers in an integrated UHF transmission system for all independent services operating from a minimum of sites, since this will reduce the likelihood that they will need different aerials for different services. The Government believes, however, that the ITC should discharge this responsibility as far as possible through private sector transmission contractors chosen periodically by competitive tender. The ITC should have a number of different contractors, each operating in a particular part of the country, with the aim of fostering a competitive transmission industry in the private sector. Its role will be mainly to appoint the contractors and monitor their performance. The Government sees merit in principle in privatising the ownership of the transmission infrastructure as

a whole but believes this is difficult at present given the way in which the IBA's system is entwined with that of the BBC. However, it envisages that this issue will be reviewed when the BBC Charter comes up for renewal at the end of 1996.

3. Under the existing arrangements the IBA owns and operates the uplink for its DBS contractors. The Government believes that DBS licensees should in future be responsible for the uplink themselves along with the rest of their transmission system (ie the satellite). The IBA is presently constructing the uplink for British Satellite Broadcasting and will operate it while the law remains as it is. The Government will discuss the transitional arrangements with the parties concerned.

4. The BBC's transmission responsibilities are reflected in its Charter which lasts until the end of 1996, and the Government does not wish to question the BBC's continuing transmission role, at least in that period. The advent of new services will, indeed, open up new commercial opportunities for the BBC. The Government hopes that the BBC will make the best of these opportunities by offering a transmission service to other broadcasters on a commercial basis, and the BBC has indicated its interest in pursuing that. In the same way the BBC should test the market for the operation by others of its transmission system. The BBC has already tested the market for a range of support services as part of its general policy of devoting as great a proportion as possible of its resources to programme making. The Government sees advantage in it adopting the same approach to the transmission area too. Accordingly, while it wishes to consult the BBC about the approach, it envisages that the BBC should contract out to the private sector, as far as possible, the operation and servicing of its transmission system; and the Government will keep in mind the possibility of legislating to that end. As in the case of the ITC, the Government expects the BBC to engage a number of transmission contractors. That approach

is compatible with the BBC, at the same time, offering a transmission service to other broadcasters, for example the new national commercial radio services and those wishing to offer an MVDS delivery service. The Government appreciates that there is some risk that because of its dominant position as a vertically integrated national broadcasting organisation the BBC may be able to undercut commercial competition for transmission contracts. It will keep under review the extent to which market distortions, through pricing policy or otherwise, arise and if necessary will seek remedies under the competition legislation.

5. The holders of local delivery franchises will be responsible for making their own transmission arrangements, though they will be subject to ITC oversight, especially since it will be responsible for planning, and for providing advice to government on co-ordination and international clearance for the use of the relevant frequencies. It will be open to operators to have an in-house transmission operation, or to make arrangements with a private sector company, with the BBC or the ITC, or any combination of these.

BROADCASTING: BBC Finance Pt6.





10 DOWNING STREET

Professor Griffiths,

You will see
the P.A. has

asked for your
comments. Could you
pl provide his say
a 2 page note?

NW to PM
30.9.88

N. L. U

3.10.



10 DOWNING STREET

MR GRAY

C.F. P.
PRLG
3/10

You may care to put this
correspondence on your file.

BERNARD INGHAM

3 October 1988



10 DOWNING STREET

LONDON SW1A 2AA

From the Press Secretary

3 October 1988

Mr R. Griffiths,

The Prime Minister has asked me to thank you for your supportive letter on the liberalisation of broadcasting.

You may be interested in her remarks ^{*} on the issue while on tour in Europe recently.

Yours sincerely

BERNARD INGHAM

* enclosed

John Griffiths Esq



the department for Enterprise

cc DW

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

The Rt Hon Douglas Hurd CBE MP
Home Secretary
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Direct line 215 5422
Our ref PS6AOJ
Your ref
Date 3 October 1988

Handwritten notes:
N.B. ...
14/10/88
RC6
4/10

Handwritten signature:
Douglas Hurd

BROADCASTING WHITE PAPER

I have seen a copy of the letter of 28 September ^{top enc.} from the Prime Minister's Private Secretary to yours. I would like to add one or two comments on the BBC's use of the night hours, and on transmission.

I welcome the prospect of moving the BBC progressively from licence fee to subscription funding; and allowing them to retain one set of their night hours will give them the necessary flexibility to make a "soft start" with subscription. But as I argued in my letter of 12 September, our objectives for subscription funding of the BBC will not be advanced by the use of the night hours for specialised business services (such as the medical service), as these will do nothing to accustom viewers at large to paying for services received over the BBC frequencies. In presenting our decisions to the BBC, therefore, I think it should be made clear that we expect them to concentrate on developing services likely to be of interest to viewers at large (albeit individual programmes might cater for niche markets) and that we would not expect to authorise subscription services which appeared to be directed wholly or mainly at business or professional interests.



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On transmission, I would naturally favour an outcome which allowed for the development of as effective competition as possible. On the question of ownership of transmission assets, it seems to me that the ideal solution would be to find a way of persuading the BBC to accept an amendment to their Charter which would allow us to make sensible arrangements to privatise the whole UHF network now. I appreciate that if the BBC were vehemently opposed to such a course of action our room for manoeuvre before 1996 might be limited, but we should at least put the proposition to them.

I also have a few comments on some other aspects of the draft White Paper, which it may be helpful to raise at this stage.

Open ended -v- fixed term licences

I remain convinced that the commercial licences should be open ended. I see no prospect of bidders raising funding on the basis of eight year fixed terms. While this difficulty might be reduced by setting a much longer fixed term, the serious problems of ensuring quality and efficiency in the closing years of the licence remain. I am not persuaded that open ended licences are incompatible with change to the independent system, provided the possibility of change is made clear in the prospectus when the licences are offered. I see no reason why, in a market-led system, changes to the geographical framework of channel 3 should not be made by agreement between the licensees concerned and the ITC. Similarly, it should be possible to make any changes to accommodate technical or international developments provided the terms of the original licence are carefully drawn. The objection that the initial price paid might not in practice reflect the full value of the licence can be met by a revenue levy, as already proposed. The balance of the arguments in paragraph 18 of Chapter VI should therefore be reversed, and the paragraph should express a strong presumption in favour of open-ended licences.

Transitional arrangements for local services

In your letter of 13 September you advocated restricting the right to "convert" a cable franchise to a technology neutral delivery franchise to cable operators actually awarded franchises by the date of the White Paper. The transitional arrangements are clearly going to be difficult and controversial, and it will not be feasible to finalise them until officials have been able to discuss the implications with the Cable Authority and the industry after the White Paper is published. We must accept that this part of the

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White Paper has particularly "green edges", and that in the light of comments we might conclude that arrangements rather different to those sketched out in the White Paper would be appropriate.

It is essential therefore that the White Paper leaves us ample room for manoeuvre. I also believe that we should seek to put a term on the inevitable period of uncertainty in the cable industry by committing ourselves clearly in the White Paper to publishing a further document, setting out firm proposals for local services, not more than, say, two months after the end of the consultation period.

Finally, I feel the draft gives insufficient weight to the potential impact of new technology, including High Definition Television, on the broadcasting scene in the 1990s. My officials will let yours have some suggestions on this.

I am copying this letter to the Prime Minister and other members of MISC 128, and to Sir Robin Butler.

Y. L.
David

BROADCASTING: BAC Finances
176.

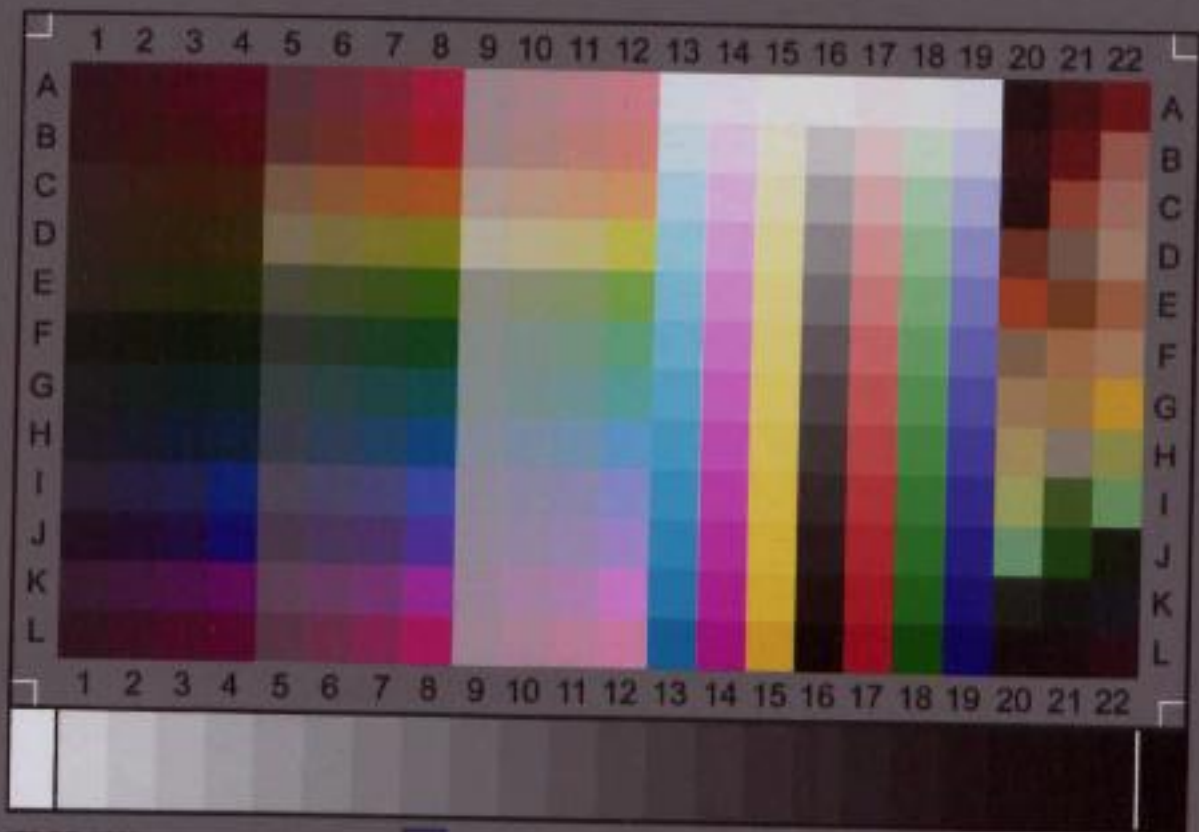


PART 6 ends:-

NW to PM 30-9-88

PART 7 begins:-

SS/DTT to Hsec 3-10-88



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