

PRIME MINISTERCABLE POLICY

There are many issues, some difficult and interrelated. We commend to you the Cabinet Office brief, which covers them thoroughly, and Chapter 1 (not the "Executive Summary") of the Official Group's report.

The Underlying Issues

E(TP) may not find it easy to see the wood for the trees. It is important to concentrate on those decisions which really are the responsibility of Government: the preservation of competition, and the regulation of monopoly. Nonetheless, these judgments will greatly affect the structure and strength of the new industry, its ability to maintain the existing quality of television broadcasting, and the pace of development of interactive television services.

The rate of cable development cannot be foreseen with any degree of certainty. Forecasts of the jobs directly or indirectly created are worth little; "tens of thousands" is a minimal forecast for a successful cable system. And it is equally impossible to prophesy whether cable will be commercially successful. History is littered with admirable inventions - the steam coach, the airship - which were by-passed for one reason or another, often by inventions which were in some respects inferior. On the other hand, who prophesied the full extent of the video boom? The assumption in 2.14 that "cable systems are unlikely to constitute 'a licence to print money'" is just as unsafe. Nor can we be sure that, as the Official Group believes, the success of cable necessarily involves a decline in the quality of traditional public broadcasting. That was argued before the coming of ITV, but few who remember the flat and timid nature of TV before ITV would maintain with total conviction that the old days really were better. If we believe cable is desirable on the grounds of liberty and diversity, then we do not need to justify it on other grounds of which we cannot be sure.

In the remainder of this note, we follow, for your convenience, the order of the issues addressed in Peter Gregson's brief (which in turn follows the structure of the report), with the addition of a section on Industrial Relations.

Network Design and Technical Standards (Chapter 3)

The Official Group's arguments here seem impeccable. If government attempts to choose and dictate, it will almost certainly choose wrongly, but it should try to minimise the costs of transition to the switched-star system, if that were to turn out to be the winner.

Telecommunications Policy (Chapter 4)

If the cable operators are to offer switched interactive services, then they will not want them to be run by BT, Mercury or Hull, as the existing law requires. Yet one of the attractions of cable is that it offers the possibility of switched interactive services. The Official Group, rather tentatively, suggests further work to seek out some compromise which would not fatally damage the privileged role of BT, Mercury and Hull under existing telecommunications policy.

But we wonder whether this dilemma is real. If plans to provide switched interactive services would "tend to put off investors" in cable, then cable firms won't make such plans. And if BT and Mercury are already fully stretched with their existing plans, then they would not be anxious to involve themselves closely with the risky business of cable. If, on the other hand, the demand for switched interactive services increases far more quickly than is now forecast, then there will be plenty of jam for all.

Either way, there seems little harm in broadening our policy of competition in telecommunications to its logical conclusion:

- (i) that cable operators should be free - but not forced - to compete in telecommunications services, as well as BT and Mercury (subject to the exclusion of voice telephony for other reasons);
- (ii) that cable systems should be required to have the capability for such services or be capable of suitable upgrading, but should not be required to utilise this capability from the start - as the Official Group recommends in 4.29(iii);
- (iii) that the cable authority should take into account the quality of this capability when awarding franchises;

- (iv) that BT, Mercury and Hull should, in their turn, be equally free to compete in the provision of cable services, as suggested in 4.35 of the Official Group report.

Broadcasting Implications (Chapter 5)

Why note?
We agree with the safeguards recommended by Hunt. We see no need to relax them further, eg by allowing a degree of "pay-per-view". If there is a considerable danger that financial pressures will force the new cable operators, and eventually the existing television channels, to buy cheap (largely American) imported programmes in preference to making their own, then it is all the more important that the existing companies are encouraged by competition to operate more efficiently (especially as concerns manning, of which more below).

Regulation (Chapter 6)

It would be helpful, as the Official Group suggests, to make an early statement (in a White Paper next spring) of our intention to follow the Hunt criteria for judging applications for a franchise (6.16 of the Official report). These criteria are the heart of the matter. When we confer a local monopoly, it is our duty to make sure of the most comprehensive range of channels that is consistent with viability.

We sympathise with the officials' suggestion that the IBA should not be ruled out as the authority for cable providers and operators too. There is a lot to be said for not duplicating quangos. And it would surely be possible for the IBA to use its experience to operate the somewhat different set of criteria which would be required for cable.

Legislation and Interim Steps (Chapter 8)

It would be foolish to try and rush the necessarily complex legislation into this Session. The control of monopoly requires careful preparation and properly thought-through criteria. Will the proposed Advisory Committee, which would chrysalise into a "shadow authority", clarify or complicate matters? It might be better to proceed with the proposed timetable without it.

Industrial Relations

Whatever conclusions the Government reaches on all these issues, it is certain that the successful development of the new industry will depend to a large extent on avoiding the union stranglehold which bedevils the existing companies. Unless costs can be held down, the financial prospects of the new companies, and the ability of the present ones to compete, will be weakened. The principal effect of the union monopoly of labour in the industry is, of course, overmanning.

We think these safeguards offer the best protection against union monopoly:

- (i) BT and Mercury must not be allowed to dominate the construction, ownership and maintenance of cable systems. Since these systems will "have to be local monopolies to be viable" (2.15), it ought to be a function of whatever public authority is set up to ensure that those local monopolies are as widely distributed as possible.
- (ii) The existing ITV companies must not be allowed to dominate the production and distribution of programmes.
- (iii) The new authority should be explicitly instructed to be mindful of the closed shop provisions of the 1982 Act. It should also be instructed to encourage innovation and innovatory companies, especially those which offer services and programmes which might not otherwise be available. (In practice, these latter will often be low-cost, non-union firms and institutions.)

The Official Group tamely concedes that: "Experience to date suggests that it is doubtful if companies involved in the distribution and making of programmes could operate without recognising unions". (2.21) But that is because experience to date is of two monolithic bureaucracies.
- (iv) As already proposed, the authority should not be asked to specify directly which channels a cable operator should carry (apart from the "must-carry" protection for the four

existing public-service channels); but it would award franchises to operators according to how wide a variety of channels they proposed to carry, and it would fail to renew those franchises to providers who did not keep their word.

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