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CABLE

There is much press comment that our cable policy has lost its way. Many of the pilot franchise companies are disappointed and frustrated. These views are largely unjustified, although to some extent understandable.

Licences

When the 11 pilot franchises were selected in November last year, we had hoped that these companies would be up and running well before the Cable and Broadcasting Bill became law. However, the Bill was enacted on 26 July 1984 and there have been considerable delays in the issue of licences.

Cable companies require two licences - one from the Home Office to offer a cable programme service and one from the DTI for the technology of the system. So far the Home Office has issued four licences. No DTI licences have yet been issued.

It was originally anticipated that DTI licences would be issued on an interim basis under the 1981 Telecommunications Act. Delays now seem to have ruled this out except perhaps for the four companies with Home Office licences. For the rest, it is now likely that the DTI licences will be issued under the 1984 Telecommunications Act. This has the considerable advantage of conferring PTO status on the cable companies which will enable them to short-cut many planning procedures. Allowing for statutory consultation periods, these licences should be issued sometime in the Autumn.

Role of BT

This further delay will allow certain outstanding issues to be resolved. Several of these concern the role of BT in cable operations.

There has been a difficult negotiation with BT to ensure that cable operations are at arm's length from BT's other activities in order to prevent cross-subsidisation. At the same time BT wish to offset the cost of cable against their taxable profits. A likely compromise allows BT PLC to finance local cable systems but then to lease these assets to an arm's length company - BT Cable PLC. This should meet the objectives of both parties.

The other main argument is who should hold the DTI licence. BT argue that if they are financing the assets

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they should hold the licence. DTI argue that the licence should be held by the franchise company. This argument is likely to be resolved by making an exception in the case of the pilot franchises.

The role of BT in cable will be important, both because of the growing convergence between cable and telecommunications systems and their support for advanced switch-star technology. This technology will allow the rapid development of interactive services. However, it is less likely to show an early return than the cheaper tree and branch system which will largely restrict cable to entertainment services. Pilot franchise companies were selected on their willingness to install advanced technology.

Market Forces

The DTI have attempted to impose obligations, particularly on coverage, upon the cable companies in return for monopoly franchises. This tends to conflict with our general desire to leave the development of cable to market forces. This problem is likely to be satisfactorily resolved by requiring the companies to show a general willingness to cable as widely as possible subject to commercial judgement.

Economics

The Budget changes in first year capital allowances have had a significant impact on cable finances and have been interpreted by many in the cable industry as representing a change in our commitment to cable. I have studied the detailed economics of several of the pilot consortia and although they do now look less attractive, I would still expect the majority to proceed.

The Government has, in recognition of the companies' financial difficulties, extended the terms of licences by 3 years.

Cable Authority

The Home Office are having trouble finding a Chairman for the Cable Authority. Several people have been approached but nobody has yet been willing to take the job. It is hoped that the Cable Authority will be up and running later in the year. This will also tend to ease the co-ordination problems within Government.

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The Pilot Franchises

It would be unfair to assume that the above indicates that the pilot companies have lost their enthusiasm. Many of them are run by the very entrepreneurial people whom we wish to encourage. They are naturally impatient to get on with developing the business opportunities and have found it difficult to negotiate with many different parts of Government.

Some of the consortia are not as soundly based as others and it is true that some of the initial plans were naive rather than considered. However, I would still expect most of the 11 to be around in a year's time.

Windsor - this consortia always was rather more marginal than the others and the Budget changes have made it vulnerable. Windsor do not have a big enough area of high density housing and the Home Office have accepted proposals for extending their area.

Merseyside - is also shaky owing to lack of success in finding financial backers. Robert Maxwell has proposed taking over 75% of this consortia and discussions are proceeding. If successful, the consortia looks secure.

Westminster - one of the most aggressive consortia whose future seems reasonably assured. They have lobbied hard on the Budget and on the relationships with BT and do seem to have the drive and imagination necessary for success.

Guildford - this is a loss leader for Rediffusion and essentially a showcase for their new technology. They look safe as long as Rediffusion take a long-term strategic interest in cable.

Swindon - this consortia contains Thorn EMI and seem secure. Digging has started and 5,000 homes will have a 16 channel service by September.

Coventry - also involves Thorn EMI and looks secure.

Glasgow - making good progress.

Aberdeen - solidly based.

Croydon - looks reasonably secure after some difficulties in obtaining financial backers.

Belfast - as so often in Northern Ireland, largely an unknown quantity.

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Ealing - this is a borderline case. The consortium is 75% owned by Ladbrokes who are taking a very hard-headed view. They are seeking greater flexibility on technology and business plans than DTI are at the moment prepared to concede.

BT are involved in 5 of these 11 consortia - Merseyside, Westminster, Coventry, Aberdeen and Belfast. Home Office licences have been issued to Guildford, Swindon, Glasgow and Croydon.

The Programme Providers

National cable channels are already appearing and there is considerable creative and entrepreneurial activity in this area.

TEN, The Entertainment Network, is the first premium feature film channel to offer cable the appeal of big name movies. TEN is backed by Rediffusion, Rank, MGM - UA, Paramount and Universal. It has been on the air since March serving Rediffusion's upgraded old technology systems in certain parts of the country.

A second glossy feature film channel has also just been launched. Premier is backed by Thorn EMI, Goldcrest and a clutch of American film studios and cable outfits. It plans to be available by satellite to cable operators in the Autumn.

Music Box is a British-based European-wide satellite to cable music channel offering pop music. Its success seems assured.

Sky Channel, the pioneer satellite to cable service to Europe, which is owned by Rupert Murdoch, is already pumping out pulp re-runs with supporting advertisements.

Finally, Screen Sport is the first national cable sports channel although it does not include many of the big sports held by the current networks.

Conclusion

Our cable policy has not lost its way. It was inevitable that our decision to introduce cable as quickly as possible would lead to some delays as unforeseeable problems arose. Both Government and the cable industry are developing and learning all the time.

It is true that the initial euphoria has now been replaced by cautious realism. Nevertheless, most of the 11 pilot franchises look certain to go ahead and this will lead to the cabling of perhaps 1 million households.

The next round of cable franchises will not be far behind. There is considerable interest in this round and it is likely that the Cable Authority will be able to invite applications by the end of the year.

The cable revolution is therefore well launched. It will bring with it real jobs and wealth to the economy and a diversity of choice in entertainment and services not yet perceived. The impetus for all of this stems from our market-based and far-sighted policies.

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