

PRIME MINISTERPEACOCK REPORT

Professor Peacock presented the report of his Committee to me last week. I propose to arrange for its publication at the earliest suitable date, perhaps in the first week in July. I shall at that time need to give the Government's initial response to it. What follows are my first thoughts on the report and its handling, together with a trial draft of the statement which I might make on publication. I enclose a copy of the report, which it may be helpful if we discussed before the draft statement is circulated more widely. The crucial part is Chapter 12, which opens with a summary of the Committee's conclusions and includes all the recommendations. I also attach a list of the recommendations together with some initial comments on them.

2. The Committee has gone beyond its terms of reference (which were aimed at the financing of the BBC) to map out a route for the phased transformation of broadcasting from regulated public service broadcasting to the ultimate goal of a completely unregulated market for broadcasting services which might be described as "electronic publishing". The fact that it neither took, nor invited, evidence on some of these wider matters will be controversial and may reduce the authority of its conclusions. Although radical in its long term vision, the report is conservative in its short term recommendations. In particular it rejects all proposals for advertising on the BBC (though Radios 1 and 2 and the BBC local radio, if privatised, would carry advertisements).

THE COMMITTEE'S CONCLUSIONS

3. The main intellectual thrust is best understood in the (by no means novel) analogy made throughout the report between the history of printing and that of broadcasting. This argues that, just as the proliferation of printing presses forced the Government of the late 17th century to lift controls on printing with wholly beneficial results, so the inevitable direction of broadcasting will be towards a similar free market, as fast as technological developments make this possible. This is something which the Committee welcomes, and seeks to accelerate.

4. Thus the Committee's guiding principle is that of consumer sovereignty (which it distinguishes from "commercial laissez faire" with its risk of unregulated monopolistic practices) which it believes is best served by the creation of a genuinely competitive broadcasting market. The Committee identifies three pre-conditions for the creation of such a market:

- (i) viewers must be able to register their preference directly by "pay-per-view";
- (ii) there must be freedom of entry for programme makers; and
- (iii) transmission facilities must be operated on a common carrier basis.

(Paragraph 55)

5. The Committee recognises that these are ideal conditions and that the technology does not yet exist to implement all of them, although it is clear that it will within a matters of years. The Committee emphasises that broadcasting services financed by advertising do not fulfil condition (i) in its fullest sense.

6. The Committee acknowledges that while spectrum scarcity prevails and there is no direct means of consumer payment for programmes, the present system of public service broadcasting provided by broadcasting authorities may be the best means of maximising consumer welfare through the provision of programmes of popularity, merit and diversity. In particular it concludes that "the BBC and the regulated ITV system have done far better, in mimicking the effects of a true consumer market, than any purely laissez faire system financed by advertising could have done under conditions of spectrum shortage" (Paragraph 581). This leads them to reject advertising for the BBC which, under present conditions, they argue would "reduce the effect of range of choice open to viewers and listeners (Paragraph 541(vii)). Nonetheless the present system has the natural imperfections of a regulated duopoly (including economic efficiency and the inhibition of freedom of expression) and should not be perpetuated once a better system is available.

7. The Committee therefore chart a course in three stages. Stage 1 is seen as a preparatory stage lasting about ten years in which the current structure of broadcasting remains, but with a number of detailed modifications to the BBC and IBA services in order to prepare for Stage 2. Under this stage BBC services would be paid for by subscription, and other broadcasting systems on cable and satellite would be allowed to proliferate, using whatever payment system was appropriate. The long term goal would be Stage 3, where the full broadcasting market is achieved by means of an indefinite number of channels paid for by pay-per-programme or pay-per-channel. One way of achieving this is through a national wideband fibre optic grid throughout the country, and some of the recommendations under Stage 1, which critically affect our current telecommunications and cable policies, are intended to expedite the development of such a grid.

8. In both Stages 2 and 3 "public service broadcasting" is preserved but based upon a narrower definition than that now applying to the BBC and IBA, and limited to programmes which would not be produced by a free market. These programmes (which appear to include the whole of Radios 3 and 4, among other things) are to be supported by subsidy disbursed by a new body, the Public Service Broadcasting Council. It is not clear to me that there is general acceptance - and indeed I am not convinced that public service broadcasting in the wider sense is at the end of its useful life; and I think this is one of the less persuasive parts of the report.

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9. I do not believe that the Peacock recommendations provide a sound basis on which to make early legislative changes; and I shall not be seeking to persuade you and our colleagues that this is needed. Nonetheless I consider that the Committee's analysis and its attempt to develop a coherent framework for the long term development of policy has much to attract us, in particular the proposals for the replacement of the BBC licence fee by direct subscription. The concept that in the end the consumer should select and pay for his own viewing fits our philosophy well. Accordingly our early response should not seek to distance us from this aspect of the Committee. However, Stages 2 and 3 are some years ahead, and I do not believe that it is necessary or desirable for the Government to take a firm position on them in its immediate response. More difficult are some of the immediate and detailed recommendations which the Committee make, all of which apply to Stage 1, and which will require a response in due course. The Committee believes that all these recommendations must be implemented if Stages 2 and 3 are to be viable. I am not convinced that this is so.

10. The recommendations which are likely to prove most controversial are those which concern the BBC, including the rejection of advertising (Recommendation 2), the continuation of the licence fee (indexed to RPI) (Recommendation 3), and the privatisation of BBC local radio and Radios 1 and 2 (Recommendation 7). The conclusion on advertising will disappoint some of our supporters. On the other hand, in view of the composition of the Committee and the weight of economic evidence on which it bases its conclusion, it would be difficult for the Government to reject it and to seek to impose advertising on the BBC despite the Committee's arguments of principle, and their assessment that advertising revenue for broadcasting as a whole would actually go down. My inclination, therefore, is not to respond immediately but to allow some time for the implications of this recommendation to sink in. I nevertheless believe that a decision will need to be taken soon on the licence fee question to prevent the issue building up again in a way which would help no-one. My present view is that we should announce in the Autumn that the present £58 licence will be extended for its third year to 1988 (the current settlement runs until 1987 and, unless displaced by a different system, until 1988), with a commitment to an indexed increase for a fourth year based upon the RPI. This would take the matter beyond the General Election whenever it takes place and avoid the need for a messy debate in early 1988.

11. The Committee offers two alternative recommendations concerned with BBC's Radios 1 and 2 (Recommendations 7 and 7(a)). A majority suggests that the BBC should be required to privatise the two radio stations; the whole Committee agree that they should be given the option of doing so, and of privatising local radio. (It is not entirely clear what privatisation means in this context since the most valuable asset - the frequency spectrum - is not owned by the BBC. Moreover, there would be nothing to prevent the BBC making its remaining service more populist). It also recommends a looser regulation of independent radio. These proposals have the merit of opening up the nature and extent of the IBA and BBC role in radio. I have already announced my intention to publish a Green Paper to look at radio in the round on which I shall, of course, be consulting colleagues in due course. In my

statement, therefore, I will want to detach the radio recommendations from the rest of the Report and to say that the Government will be looking at the whole of radio policy in its Green Paper which I hope may be published in the Autumn.

12. Another recommendation (made by only four members of the Committee) which requires an early response is that IBA contracts should be awarded by competitive tender and by rolling review (Recommendations 10 and 11). As things stand the IBA will advertise television contracts late next year, select contractors by the end of 1988, and new contracts would begin in 1990. These arrangements are grounded in the present legislation. There is, therefore, little time for change to be made before the next round of contracts and to do so there would need to be legislation next Session. This would be controversial and would inevitably raise wider questions to which the report does not, I think, provide the answers. Like the three dissentient members of the Committee, I see no great merit in the auction approach and several disadvantages. To prevent unsettling the independent sector any further, I would therefore wish to make an early rejection of this approach.

13. Another recommendation which I would want to reject at the outset is that the content of programmes should be subject only to such regulation as is provided in the general law of the land (Recommendation 18). This approach in effect dismisses the need for the regulatory powers of the BBC Board of Governors and the IBA. It will, of course, antagonise those who argue - and with whom I have a lot of sympathy - that because television is particularly intrusive, the broadcasting authorities have a particular responsibility for their treatment of violence, obscenity and, indeed, politics. This recommendation is linked in the report to the provision of unregulated night-time services (Recommendation 9). It will be bound to raise speculation about "adult" films being shown in the early hours of the morning. My statement on publication would, therefore, reject this proposal, citing the current concern about broadcasting standards and the particularly intrusive nature of the medium. This blind spot is reflected also in the fact that the report barely mentions as a feature of our present public service broadcasting arrangements the requirement on the broadcasting authorities to produce accurate and impartial news and to ensure balance and impartiality in dealing with matters of public policy and political or industrial controversy. Although we may have doubts about their success in always meeting these high standards we have no doubts about their importance. In the Peacock view of the future all this would disappear, with the broadcast media being subject to no greater regulation than newspapers and the other print media.

14. As I have already mentioned, one route to the Committee's long term vision of a free broadcasting market is through the provision of a national optical fibre grid. We of course share the hope of securing national interactive broadband telecommunications networks. But we deliberately decided against provision television programme services solely through the telecommunications duopoly. The Committee recommends, however, (Recommendation 15) that telecommunications systems (by which they mean British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television

programmes. This proposal, which the Committee reached without seeking or receiving evidence on it from the Home Office or the Government Department principally involved - the Department of Trade and Industry - goes to the heart of our hope of providing cable programme services through local interactive networks which would provide a desirably competitive medium. Nonetheless it is clear that our present cable policy has not so far led to the rapid development of local cable networks which we hoped to see. There is no need for an early public response to this recommendation but we obviously need to form our own collective view on it.

15. There is, finally, one group of recommendations which, although relatively small in relation to the scale of some of the others, raises considerable political difficulties. These concern concessionary licences. You may be aware that there is a Labour Party pledge to exempt all pensioners from the licence fee, the cost (about £325 million per annum) being met from general taxation. The Peacock Committee makes a number of relevant comments. First, it makes a formal recommendation (Recommendation 6) that pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee, the cost (about £80 million per annum on their estimate) being recovered by their proposal (Recommendation 5) of a separate licence fee for car radios. Second, in Paragraph 635, the Committee suggests abolishing the existing concessions for people in accommodation for residential care (which "costs" about £20 million per annum in licence revenue foregone). Third, in Paragraph 627, the Committee again suggests, though without making it a formal recommendation, that attention should be given to increasing the monochrome licence fee to bring it closer to that of the colour fee. (At present about 2.7 million households have monochrome licences and if each of these were to pay the colour licence fee an additional £108 million per annum would be raised).

16. While on merits there is much to be said for abolishing the existing concessions, to do so would provoke an unattractive row with a group some 600,000 strong which includes some severely disadvantaged people such as the mentally and physically handicapped. (It was indeed pressure from this lobby which led us in 1984 to widen the concessions which had previously applied only to the elderly). It might be possible to mitigate (but not avoid) the outcry if at the same time alternative arrangements were introduced aimed in particular at disadvantaged pensioners. But I am not convinced that the package envisaged by the Committee would provide an acceptable solution. The proposal to broaden the licence fee base, by introducing a new licence for car radios, might be both unpopular and administratively cumbersome. There is something to be said for removing the monochrome licence (which is sometimes obtained to evade the colour licence fee). But the existence of this relatively cheap licence (£18) is a useful answer to those who see the colour licence as an oppressive poll tax. This is very difficult territory, and I propose to avoid any commitments in my initial statement; and, of course, nothing firm could be said unless we were prepared to acknowledge the continued life of the licence fee system.

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17. For most of the rest of the recommendations I see no need for the Government to give an early indication of its view; indeed I see positive advantage in encouraging a wider debate on the issues and in letting the Committee's recommendations find their own level. Indeed reserving our position for a while may help to maintain an element of pressure on the BBC. On these matters, therefore, my initial statement would simply invite comments from the public and other interested parties.

18. A copy of this minute goes to the Lord President, the Chancellor of the Exchequer, the Secretary of State for Trade & Industry, the Chancellor of the Duchy of Lancaster, the Attorney General, the Chief Whip and to Sir Robert Armstrong.

*Douglas Hurd*

11 June 1986

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## COMMENTS ON PEACOCK COMMITTEE RECOMMENDATIONS

Recommendation 1: All new television sets sold or rented in the UK market should be required from the earliest convenient date, and in any case not later than 1 January 1988, to have a peritelevision socket and associated equipment which will interface with a decoder to deal with encrypted signals.

The Committee see this recommendation as a essential to prepare for their Stage 2, where the BBC (and other broadcasters if they wish) would be financed by subscription. There is no necessity for an early decision, and it is not clear that legislation is the best or most desirable way of achieving the necessary modification to television equipment: if it is clear that the Government is committed to this approach it is likely that the market would follow. The requirement would put up the price of sets and would be unpopular with consumers and with manufacturers.

Recommendation 2: BBC television should not be obliged to finance its operations by advertising while the present organisation and regulation of broadcasting remain in being.

These recommendations are rooted in the principle of consumer sovereignty and the conclusion that 'the BBC and the regulated ITV system have done far better, in mimicking the effects of a true consumer market, than any purely laissez-faire system financed by advertising could have done under conditions of spectrum shortage'. This leads the Committee to reject advertising for the BBC which, under present conditions, would 'reduce the effective range of choice open to viewers and listeners'. This rejection applies equally to the idea that the BBC should be partly financed by advertising - the so-called 'topping up' of the licence fee. In addition, the economic studies commissioned by the Committee showed that there was not enough additional advertising revenue to support both sides of the duopoly, although this finding is not central to their rejection.

In view of the composition of the Committee and the extensive economic research which it commissioned, I believe that the Government will find it difficult to reject this recommendation. The current licence fee settlement runs until March 1987 or March 1988 unless the licence fee is displaced by some new system





of financing the BBC. Accordingly unless we make the position clear fairly soon pressure may mount, particularly from those who still want advertising on the BBC. I doubt if this, or a further licence fee application aimed at March 1988, is in anyone's interests. Accordingly, I believe that a fairly early response is needed. However, rather than deal with this in my July statement, I would rather leave the implications of the recommendation to sink in, particularly with our supporters, during the Summer. I would suggest making an announcement in the Autumn confirming that the present £58 licence fee will continue until 1988, with a commitment to a further extension to 1989 linked to RPI (see below). This would then take the matter well beyond the life of this Parliament.

Recommendation 3: The licence fee should be indexed on an annual basis to the general rate of inflation.

The Committee see this as a way of enhancing the BBC's independence and avoiding the awkwardness of large triennial increases. The choice of RPI would have the benefit of enforcing a degree of economy and efficiency in the organisation, given the pace ITV sets and the labour intensive nature of the broadcasting industry. The BBC will have mixed feelings about this proposal, and particularly the choice of index, but on balance I would expect them to accept it.

I have suggested above that we should make a commitment to linking the 1989 licence fee settlement to RPI. Although this would not go so far as the Committee would wish and give a long term commitment to indexation, it would probably be difficult for this or any other Government to step back from indexation once the principle has been established. It is clearly important, as the Committee envisaged, that any increase above the RPI should be exceptional and justified only by special circumstances.

Recommendation 4: To permit the BBC to be the managing agent in the collection of the licence fee, the Post Office should be released from its responsibility as agent to the Home Office for collection and enforcement procedures associated with the licence fee. The BBC should become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. (The Post Office, of course, could tender for the role of agent.)



Under this proposal, while my own responsibilities would remain unchanged, the BBC would become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. I must say that I find this proposal profoundly unattractive as it would lead to a confusion of responsibility with no compensatory advantage. If we do reach the conclusion that the licence fee system must be kept in existence for some years I would see more merit, at first sight, in the idea Nigel Lawson put to me recently: namely that the BBC should take over complete responsibility for the collection and enforcement of the licence fee, though the matter is far from straightforward. We might explore this further, in consultation with the BBC, if and when we conclude that the licence fee system cannot be displaced altogether, at least in the short term, by some other method of funding the BBC.

Recommendation 5: On the understanding that the proceeds would be used to reduce the cost of the television licence and not to increase the total sum available for broadcasting, a separate licence fee of not less than £10 should be charged for car radios.

The Committee considered it undesirable that there should be no radio licence since radio accounted for 28% of the BBC's expenditure. It recognised the difficulties of re-introducing a full radio licence, but argues that a licence on car radios, where much of the listening takes place, would be practicable and enforceable. The Committee apparently expected this proposal to raise about £80m pa.

We have looked at similar proposals in the past which have been put to us by the BBC as a way of increasing their revenue. There are difficulties both of principle and practicality. First, if we are to go back to a radio licence, it is somewhat illogical to confine it to radios installed in cars. The only justification for doing so is the ease of policing and the fact that fiscally it is somewhat progressive (since car ownership is mostly confined to the better off). On the other hand collection would add a new tier of administrative complexity, especially if there were to be an annual charge. If the Committee's recommendation for a one-off charge were accepted, then the cost would need to be in the order of £50-60. This would be extremely unpopular and would be liable



to create back-street markets in radio fitting. It is worth noting that the new trend for car radio aerials concealed in window surrounds or heater elements will make it progressively less easy to identify cars with radios installed.

This proposal has been given a public airing in the past. I see no need for an immediate response and I think that public discussion of the matter will ease the way towards rejecting it.

Recommendation 6: Pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee.

The Committee estimates that the cost of this proposal in terms of revenue forgone would be about £80m pa. Like the existing concessions this proposal would create awkward anomalies at the margins, and is in conflict with our broad approach of avoiding specific concessions and subsidies. There are, for example, needy groups other than the elderly poor whose claims could be forcefully argued and there is no obvious reason why concessions, if granted, should extend to full exemption from the licence fee, rather than being limited to, say, a 50% reduction. Indeed much of the pressure for wider concessions, including recent representations from Age Concern, argues only for cheaper rather than free licences. There are also obvious risks in relating eligibility for concessions to criteria such as receipt of certain benefits or other factors which might reflect only temporary rather than long term need; and establishing with certainty the circumstances of a household as a whole (rather than an individual member of it) could produce considerable complication. Nonetheless it is clear that there is a wide measure of concern (to which the Labour Party proposal to provide free licences for all pensioners is a response) about the way the licence fee bears on the elderly in particular. Our response to this is linked to the action if any we propose to take on the present concessionary arrangements.

Recommendation 7: The BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part. IBA regulation of radio should be replaced by a looser regime.



Recommendation 7a\*: Radio 1 and Radio 2 should be privatised and financed by advertising. Subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. IBA regulation of radio should be replaced by a looser regime.

There has always been some criticism of the BBC's involvement with what was seen to be the commercial end of the radio market. The suggestion that these radio stations might be privatised is a logical one from this Committee which takes a restricted view of the 'public service broadcasting' which it believes the BBC would provide in the medium term. However, the proposal is not as straightforward as it seems. Radios 1 and 2 are not separate entities like a local radio station: they use the studios and support facilities of the rest of the BBC radio services, and they are transmitted from the same transmitters. In effect ~~all~~<sup>what</sup> the Committee is suggesting is that the frequencies currently assigned to these radio services (which the BBC does not of course own) should be allowed to be used by commercial radio interests. This would have an immediate impact on the viability of independent local radio and in the longer term on proposals for an independent national radio network (INR). Without a change in our constitutional relationships with the BBC - where it is for them to decide the nature of these programme services - there would in practice be nothing to prevent the BBC developing on its receiving frequencies replacement music services. Radio 4, for example, might become more populist and music orientated.

The Government is already committed to a Green Paper which will look at radio in the round, and I suggest that these recommendations on radio, should be detached from the report and considered in the context of the Green Paper. Subject to the views of colleagues, I will make this clear in my July statement.

\*proposed by 5 members of the Committee

Recommendation 8: The BBC and ITV should be required over a ten year period to increase to not less than 40 per cent the proportion of programmes supplied by independent producers.

Channel 4, which is required to take a certain proportion of its material from independent producers, has been very successful in creating an efficient and



professional independent production industry in the UK. The Committee has clearly been impressed with what it has seen, and the arguments that greater access to BBC and IBA airwaves would promote greater efficiency. The creation of an independent sector is also important for its long term plans for electronic publishing.

There is no doubt merit in the general idea, but the particularly mechanistic way in which the Committee has proposed it will undoubtedly provoke hostile reaction from the broadcasters (as has a more modest proposal in the EC draft directive). It would require legislation to enforce the recommendation and there seems no need for the Government to take a forward position on this.

Recommendation 9: The non-occupied night-time hours (1.00 am to 6.00am) of the BBC and ITV television wavelengths should be sold for broadcasting purposes.

The Committee sees the unused night-time capacity as an opportunity for introducing at an early stage some of freer market conditions which the report looks forward to in Stages 2 and 3. In particular it argues that the content of programmes broadcast at these times should not be subject to special regulation (nor to the control of any broadcasting authority) except the general law of the land. They would, in effect, be the first steps towards electronic publishing. There is a link with the separate proposal (Recommendation 10). ~~I am sure we cannot accept Recommendation 9 as it stands. Question of accepting Recommendation 9.~~

In view of the concern about sex and violence on television, and indeed the central point that the broadcasting medium requires special treatment by its nature, I would want to reject the concept of unregulated broadcasting at once (see also Recommendation 18). As to the use of night-time hours, both the BBC and the IBA are already toying with their own proposals and a three-month experiment on Yorkshire Television is due to begin shortly. It would be open to the IBA to offer a separate contract for night-time broadcasting, on the lines of TV am. The BBC already use some of the silent hours to transmit educational programmes for recording, and they could, if they wished, extend these arrangements

(Note: Spoke to Home Office 13/6.  
How does the College of the Air  
fit in with this?  
JRS  
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to a subscription service for entertainment programmes at night. There are, therefore, ways of taking forward this proposal which would not involve the complete deregulation which the Committee desires, and which would not necessarily deprive the existing broadcasters of their right to use this time, which they would resist strongly. This is a matter which will find its own level in public discussion, and I will confine my initial remarks to rejecting the concept of completely unregulated broadcasting.

Recommendation 10\*\*: Franchise contracts for independent companies should be put to competitive tender. Should the IBA decide to award a franchise to a contractor, other than the one making the highest bid, it should be required to make a full, public and detailed statement of its reasons.

This proposal would require new legislation which would undoubtedly be controversial and which would inevitably provide opportunities for raising a wide range of matters beyond the scope of the immediate recommendation. I do not believe that it would be timely to introduce such legislation before a General Election. The IBA is bound by the present law to make new contracts by 1990, and the process of advertising these contracts will begin in Autumn 1987. To avoid any further uncertainty in the independent television sector, which has already been shaken by the possible implications of advertising on the BBC and the development of DBS, I should like to make an early announcement that the new round of contracts will continue on the established basis. This means that they would last until 1998.

Even in the longer term I see little merit in the auction approach and some of my doubts appear to be shared even by those members of the Committee who supported this proposal since they suggest that it would not be necessary to accept the highest bid. In this case there seems little reason for not adopting a fully discretionary approach based upon an assessment of the highest quality applicant. The Committee links its proposal for an auction to the phasing out of the levy. This would be a mixed blessing: the levy provides a more flexible tax on windfall profits than would an auction and there are good reasons for believing that the levy goes some way to facilitating the IBA's task of encouraging contractors to produce services of high quality.

\*\*proposed by 4 members of the Committee.



Recommendation 11: Franchises should be awarded on a rolling review basis. There should be a formal annual review of the contractor's performance by the Authority.

Recommendation 12: Consideration should be given to extending the franchise periods, perhaps to 10 years.

The Committee argues that contracts should be awarded subject to termination, after due warning, if contractors failed to fulfil their obligations. Such a scheme would require legislation. It is not clear how different in fact this proposal is from the way the IBA supervises the present contracts. Since the point was beyond the terms of reference of the Committee I imagine they received no evidence on the point. There may well be a case for making changes on these lines. But I do not think it is a sufficiently strong one to justify taking the necessary legislative steps in time for the next round (which would imply legislation next Session or, at a pinch, the one after that). Accordingly I see no need for us to give an early lead on these proposals.

Recommendation 14: Channel 4 should be given the option of selling its own advertising time and would then no longer be funded by a subscription from ITV companies.

The Committee also suggests that Channel 4 should no longer be a subsidiary of the IBA. The Committee believe that this proposal would introduce a more competitive edge into the present duopolistic system. However, it is not clear from the report that the Committee fully considered the extent to which Channel 4's freedom to be innovative and to provide a complementary service (as the Act requires) is a consequence of the present financing arrangements. What the Committee propose was expressly rejected by Government spokesmen in the debates on the 1980 Bill and since. The recommendation would fundamentally change the relationship between ITV and Channel 4 and would be reflected in ways which were not necessarily to the public good: for example, the sharing of TV Times, the cross-trailing of programmes, and complementary scheduling.

There seems no need for the Government to give an early lead on this recommendation, which would require legislation.



Recommendation 15: Telecommunication systems (eg British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television programmes.

This is a highly technical and specialised area in which the Committee has taken no evidence from the bodies responsible for present policies: the Department of Trade and Industry (which perhaps has the major interest), the Cable Authority, or the Home Office. The Committee, aware of the slower than expected growth of cable, and prompted by British Telecom - who wish to extend their involvement in cable - see this proposal as a necessary way of expediting the development of cable which would be necessary for the Committee's long term vision on a national optical fibre grid.

The Government shares the Committee's hope of securing one (or more) national interactive broadband telecommunications networks but it expressly decided against providing television programme services through the telecommunications duopoly since it believed that the creation of a separate tier of local broadband networks - led by entertainment services - would provide desirable competition to the national carriers. It is paradoxical that a Committee so concerned about competition should recommend such an enhancement of the telecommunications duopoly. Certainly our present cable policy is in the doldrums and I am conscious of the need for an (internal) review of the position. The implication of the proposal for cable, broadcasting and telecommunications policy have not been fully worked through; and I should be most interested in the views of Ministers with Departmental interests. I see no need to adopt an immediate position on this recommendation, subject to colleagues' views.

Recommendation 16: The restriction of cable franchises to EEC owned operators should be removed.

The Committee argues that foreign companies may be more willing than those in the UK to put up the venture capital required for the installation of cable systems and that there is much expertise and experience on these matters in the US which could usefully be brought to bear. This recommendation would require legislation to amend the Cable and Broadcasting Act 1984 and would be





controversial: in many people's view there is already an excessive US influence in British television, and cable programming at the present time is dominated by American exports. This is not a matter which is central to the Committee's case and is well outside its immediate terms of reference. I see no need for the Government to make an early response to it.

Recommendation 17: All restrictions for both Pay-Per-Channel and Pay-Per-Programme as options should be removed, not only for cable but also for terrestrial and DBS operations.

This recommendation is relevant to the Committee's long term belief in a full broadcasting market where consumers can express the intensity of their preferences through pay-per-view. Although it is intelligible in that light it is less clear that it makes sense in Stage 1. The Committee sees the present minor restrictions on the provision of pay-per-view on cable as an obstacle to be removed, and they wish to see pay-per-view able to be provided on terrestrial and DBS services.

This recommendation would require amendments to the BBC's Charter and to the 1981 and 1984 Acts. It would be counter to the present philosophy of public service broadcasting that it should be provided for general reception to a universal audience. The lifting of restrictions on pay-per-view on cable would be a relatively minor matter, but there is no evidence at the present time of a market for these services. Such restrictions as exist are designed to protect the existing broadcasting services from losing the coverage of major sporting events - such as football or Wimbledon - which would be to the detriment of viewers as a whole.

The technology for pay-per-view is still some way off. There seems no pressing need for the Government to respond to this recommendation, but when we do so we will emphasise the importance we attach to ensuring that pay-per-view, which has a legitimate part on cable, does not damage the interests of viewers as a whole by limiting the broadcast coverage of traditional national sporting events.



Recommendation 18: As regulation is phased out the normal laws of the land relating to obscenity, defamation, blasphemy, sedition and other similar matters should be extended to cover the broadcasting media and any present exemptions should be removed.

As discussed in relation to Recommendation 9, I would want to make an early announcement rejecting this proposal.

PEACOCK COMMITTEE: DRAFT STATEMENT

With permission, Mr Speaker, I should like to make a statement on the Report of the Committee on Financing the BBC under the Chairmanship of Professor Alan Peacock which was published today. I should like to record my deep gratitude to Professor Peacock and his colleagues for their industry in pursuing their enquiries and for their efficiency in completing their work and producing this Report in 12 months.

The Committee rejects the proposal that the BBC should at present be funded wholly or in part by advertising and concludes that the licence fee, with some modifications, should remain as the principal source of funding for the BBC. The Committee argues that, in present conditions of spectrum scarcity and in the absence of direct means of consumer payment for programmes, the introduction of advertising would reduce the effective range of choice open to viewers and listeners. Given the original work which the Committee undertook and commissioned on the economics of advertising market and on the relationship between advertising and broadcasting services, we cannot lightly put aside its assessment of this point. However, before reaching any conclusions the Government would welcome comments on the analysis which led the Committee to its recommendation on this.

The Committee's view is that our present system of public service broadcasting has provided the best means of maximising the welfare of viewers and listeners - in terms of providing diversity of choice and programmes of quality - under the prevailing market conditions. The Government welcomes this endorsement of the important contribution of the BBC and the IBA. But the Committee argues that, under pressure from inevitable technological change, the present system must and should give way to arrangements where as channels multiply and the customers find means to register their own preferences directly, a genuinely competitive broadcasting market develops. The Committee believes that this

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will take time but that in a few years, in preparation for this, payment for BBC services should be made through subscription. Provision already exists for services provided through cable and by direct broadcasting by satellite to be paid for, at least in part, by subscription.

The Government sees considerable attraction in moving towards arrangements to finance broadcasting through subscription. Such a development would have profound implications for the broadcasting services now intended to be universally available and accordingly requires careful consideration.

The Government is committed to broadcasting services which achieve the highest standards in quality, popularity and diversity of consumer choice, and in reaching conclusions on the Report, which clearly has the same objectives, we will have very much in mind the public interest in our broadcasting arrangements. The Government will reach final views on the Report only in the light of Parliamentary and public reaction; and it would welcome any comments from the public and other interested parties. However, there are three matters on which I should like to make some comment now.

First, there are the recommendations on radio. The Peacock Committee recommends that the BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part and the IBA regulation of radio should be replaced by a looser regime . Five of the Committee's members went further and said that Radio 1 and Radio 2 should be privatised and financed by advertising and that, subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. I have already announced my intention to publish a Green Paper looking not only at community radio and its possible implications for the existing

framework for the provision and regulation of radio broadcasting, but also at the future of radio services as a whole. I believe that it would be helpful for this consultative document to examine further services at national, local and community level and that the future of BBC radio services and of those provided by the IBA should be looked at in the light of the Peacock Committee's recommendations.

Second, there is the proposal by four members of the Committee that IBA contracts should be awarded by a competitive tender, with the IBA required to make a full public and detailed statement of its reasons if it decided to award a franchise to a contractor other than the one making the highest bid. The Government does not accept the case for doing this in the short term and does not propose to make early changes to the provisions governing these matters. Accordingly the IBA will award ITV contracts in the next round, and complete its present consideration of applications for DBS contracts, under the law as it now stands.

Third, there is the question of the regulation of the content of broadcast programmes. The Committee suggests that broadcast services should be subject only to such regulation as is provided in the general law of the land, as is the case for the print media, and that in the long term there should be no pre-publication censorship or vetting of any kind of broadcasting. There is also a recommendation that arrangements should be made now that the non-occupied night time hours of existing broadcasting frequencies should be sold for broadcasting use and that there should be no regulation of programme content for such services except in so far as the law of the land restricted it. Our present arrangements reflect the view that the peculiarly intrusive nature of broadcasting, and in particular of television, continue to require special regulatory arrangements to ensure that broadcast services achieve appropriate standards. For this reason

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we have broadcasting authorities to enforce controls on such matters as taste and decency in broadcasting which are much stricter than apply to the print media, or than could easily be accommodated in the criminal law. While the present regulatory regime, and the institutions to give effect to them, are not sacrosanct, the Government does not share the apparent view of the Peacock Committee that there is nothing in the nature of the broadcast medium itself to require special regulatory arrangements.

I welcome the Committee's Report and the many stimulating ideas which it contains. We look forward to the constructive public debate about the future of broadcasting which I am sure it will encourage.

## PEACOCK COMMITTEE RECOMMENDATIONS

Recommendation 1: All new television sets sold or rented in the UK market should be required from the earliest convenient date, and in any case not later than 1 January 1988, to have a peritelevision socket and associated equipment which will interface with a decoder to deal with encrypted signals. (Para 611)

Recommendation 2: BBC television should not be obliged to finance its operations by advertising while the present organisation and regulation of broadcasting remain in being. (Para 615)

Recommendation 3: The licence fee should be indexed on an annual basis to the general rate of inflation. (Para 620)

Recommendation 4: To permit the BBC to be the managing agent in the collection of the licence fee, the Post Office should be released from its responsibility as agent to the Home Office for collection and enforcement procedures associated with the licence fee. The BBC should become responsible for inviting proposals for collection and enforcement procedures and for identifying the most efficient and economic collection and enforcement system. (The Post Office, of course, could tender for the role of agent.) (Para 628)

Recommendation 5: On the understanding that the proceeds would be used to reduce the cost of the television licence and not to increase the total sum available for broadcasting, a separate licence fee of not less than £10 should be charged for car radios. (Para 632)

Recommendation 6: Pensioners on supplementary benefit in households wholly dependent on that supplementary benefit should be exempt from the licence fee. (Para 634)

Recommendation 7: The BBC should have the option to privatise Radios 1, 2 and local radio in whole or in part. IBA regulation of radio should be replaced by a looser regime. (Para 637)

Recommendation 7a:\* Radio 1 and Radio 2 should be privatised and financed by advertising. Subject to the Government's existing commitments to community radio, any further radio frequencies becoming available should be auctioned to the highest bidder. IBA regulation of radio should be replaced by a looser regime. (Para 637)

Recommendation 8: The BBC and ITV should be required over a ten year period to increase to not less than 40 per cent the proportion of programmes supplied by independent producers. (Para 647)

Recommendation 9: The non-occupied night-time hours (1.00 am to 6.00 am) of the BBC and ITV television wavelengths should be sold for broadcasting purposes. (Para 652)

Recommendation 10:\*\* Franchise contracts for independent companies should be put to competitive tender. Should the IBA decide to award a franchise to a contractor, other than the one making the highest bid, it should be required to make a full, public and detailed statement of its reasons. (Para 655)

\*proposed by 5 members of the Committee.

\*\*proposed by 4 members of the Committee.

Recommendation 11: Franchises should be awarded on a rolling review basis. There would be a formal annual review of the contractor's performance by the Authority. (Para 657)

Recommendation 12: Consideration should be given to extending the franchise periods, perhaps to 10 years. (Para 658)

Recommendation 13: DBS franchises should be put to competitive tender. (Para 659)

Recommendation 14: Channel 4 should be given the option of selling its own advertising time and would then no longer be funded by a subscription from ITV companies. (Para 660)

Recommendation 15: Telecommunication systems (eg British Telecom, Mercury and any subsequent entrants) should be permitted to act as common carriers with a view to the provision of a full range of services, including delivery of television programmes. (Para 665)

Recommendation 16: The restriction of cable franchises to EEC owned operators should be removed. (Para 667)

Recommendation 17: All restrictions for both Pay-Per-Channel and Pay-Per-Programme as options should be removed, not only for cable but also for terrestrial and DBS operations. (Para 668)

Recommendation 18: As regulation is phased out the normal laws of the land relating to obscenity, defamation, blasphemy, sedition and other similar matters should be extended to cover the broadcasting media and any present exemptions should be removed. (Para 669)





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