



10 DOWNING STREET

From the Private Secretary

13 January 1986

Dear Tim

ITAP REPORT ON CABLE SYSTEMS

Thank you for your letter of 19 December. The Prime Minister has noted the result of the further discussions between the Panel and your Minister. She is content that Mr Pattie should now write to Roger Gale, M.P., on the Prime Minister's behalf, outlining to him the current position.

I am copying this to Rachel Lomax (HM Treasury), Stephen Boys Smith (Home Office), Leigh Lewis (Department of Employment) and to Sir Robin Nicholson.

Yr
Mark Addison

Mark Addison

Tim Abraham Esq
Department of Trade and Industry.

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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Mark Addison Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1

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with ce. speak
to PW MofA 3/1/2

19 December 1985

Dear Mark,

ITAP REPORT ON CABLE SYSTEMS

Your letter of 7 August to John Mogg asked that we should update the Government's response to the ITAP report (copy enclosed); and for the report itself and the response to form the basis of a discussion between ITAP and my Minister. This took place on 18 November.

On the whole ITAP accepted the Government's response and welcomed most of it, notably continuing Government support for the cabling of Britain, the decision to liberalise Satellite Master Antenna Television Systems and the provision of Government support for the demonstration of interactive services on cable. ITAP still hope that it will be possible to link the Houses of Parliament to the Westminster cable network but they recognise that this is a decision for the House Authorities and the CCTA.

ITAP were, however, extremely disappointed with the response to their recommendation that British Telecom should be obliged to share its ducts and poles with cable operators, and the main part of the discussion was taken up with this issue. Mr Pattie explained that the Government had no powers to force BT, or for

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that matter Mercury, to share ducts with cable operators and that legislation to take such powers was not a practicable proposition. It was clear that there could be no agreement between ITAP and the Government on this issue, but we do not believe that any further approach to the Prime Minister is needed, as suggested in your letter of 7 August to John Mogg.

Finally, there is the question of what should be said in public about the report. There was some press interest in the review back in the Spring and Roger Gale MP tabled a question to the Prime Minister to ask if she would make a statement on it. The Prime Minister replied that she was considering the report with colleagues and would make a report as soon as possible. We therefore need to decide how this commitment is to be met. We would not recommend publication of the report and the response - a view which we believe ITAP shares - because of the dampening effect it could have on the industry. We therefore propose that Mr Pattie should write to Mr Gale, on the Prime Minister's behalf, giving him a very brief outline of what has transpired. Perhaps you could let me know if the Prime Minister is content with this approach.

I am copying this letter to Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), and Leigh Lewis (Employment).

Yours ever,

Tim Abraham

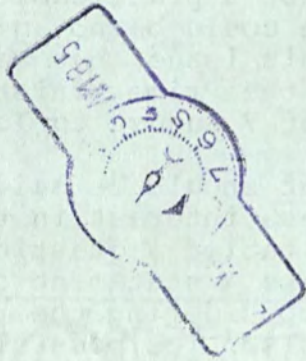
T P ABRAHAM
PRIVATE SECRETARY

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DEPARTMENT OF TRADE AND INDUSTRY RESPONSE TO THE ITAP REPORT
"ABLE SYSTEMS" A RE-ASSESSMENT

General

1. The main conclusion of the ITAP report is that confidence in the financial viability of cable has deteriorated to the point where Government must take corrective action to prevent the cable industry from failing to take advantage of the commercial and industrial opportunities which ITAP identified in their first report in 1982. ITAP take the view that this downturn in confidence has been caused by a variety of factors, notably the decision in 1984 to phase out capital allowances, the slow progress in reaching agreement on the licences for the pilot cable systems, a weakening of Government commitment to the industry and uncertainties about the level of demand for interactive services. ITAP's package of measures is designed to restore the confidence of potential investors in cable and so pave the way to the creation of a national network of advanced cable systems capable of offering a wide range of interactive services.

2. There is much in the report which the Department of Trade and Industry supports. In contrast to some sections of the cable industry, ITAP remain fully committed to the policy of using cable as a vehicle for introducing new forms of interactive service in both the domestic and business sectors. Their analysis in paragraphs 18 and 19 is a powerful case against those in the industry who argue that the present difficulties faced by cable operators will inevitably result in a reduction in the quality of the technology. We also welcome ITAP's endorsement at paragraph 10 of the report of the Department's flexible approach towards the timetable for upgrading systems to full interactivity. However, there are other recommendations in ITAP's report which the Department believes will be impossible to implement. The following paragraphs provide a detailed response to each of the Panel's recommendations.

RECOMMENDATION 1: The Government should firmly restate its support for cabling Britain and its confidence in the future of cable systems as part of the national infrastructure

3. Ministers have stressed repeatedly this year that there is no weakening of Government commitment to the cabling of Britain. In particular Mr Shaw made it clear that the Government's support and confidence in cable remained as strong as ever in his speech to the Financial Times Conference on Satellite and Cable in March. This message was further underlined by Mr Butcher at the Royal Television Society Conference in April and by Mr Pattie following a visit to Swindon in March. However, as the report acknowledges, little would be achieved if Ministers were to make a series of over-optimistic statements that were not supported by the facts. The objective, therefore, will be to draw the attention of the City and industry generally to the opportunities offered by the expansion of cable and Ministers will be pursuing this objective in forthcoming speaking engagements.

RECOMMENDATION 2: All necessary legal steps should be taken to ensure that BT and Mercury allow all cable providers access on reasonable and equitable terms to cable ducts, overhead wiring from poles, etc. If the powers available to the Director-General OFTEL under the BT and Mercury licences are not adequate to achieve this then other options ... should be explored.

4. The Government cannot accept this recommendation. Ducts are part of BT's and Mercury's assets and neither company can be compelled to make those assets available to cable providers. It must be left to their own commercial judgement. In several cases cable providers are working in partnership with BT or Mercury, and access to ducts and existing infrastructure is no doubt a key component of the two companies' contribution to those partnerships. Legal problems apart, this existing involvement of BT and Mercury makes it all the more difficult to contemplate their partners' competitors having equivalent right of access to ducts other than under normal commercial agreement in which there is no element of compulsion.

RECOMMENDATION 3: Cable franchises should be allowed to develop gradually within constraints which avoid lucrative areas being cabled to the exclusion of the remainder of the community. This applies both within the typical cable franchise area and, where possible without conflict with consumer interests, beyond the boundary of such an area

5. The telecommunications licence for cable operators which the Department has agreed with the Cable Television Association already permits the type of flexible construction programme which ITAP envisages in this recommendation. Condition 1 of the licence includes a timetable for the installation of the system couched in terms of the number of premises passed by particular dates. The approach that has been adopted gives the cable operator complete freedom to choose which parts of his franchise area to cable first. The Office of Telecommunications (OFTEL), who will be monitoring the installation, will need to be satisfied that adequate progress is being made towards the final objective of cabling the whole area by reference to the stated milestones. The Director General OFTEL will have the power to agree changes in the milestones (but not the final completion date) without the need to go through the formal process of modifying the licence condition itself under the procedures set out in the Telecommunications Act 1984..

6. What this means in practice is that the cable operator will have complete freedom to determine the order in which he constructs his cable system but will be under an obligation to ensure that the whole of the licence area is cabled by the end of the installation period. This latter obligation is to avoid the possibility, which ITAP rejects as being undesirable, of the lucrative parts of a licence area being cabled up to the exclusion of the other areas.

7. ITAP also recommends that the cable operator should be allowed some flexibility in extending the cable system beyond the original licence area. This is a matter for the Cable Authority who have already indicated that they are prepared to consider applications for extensions.

RECOMMENDATION 4: Licences should be granted for the reception of cable programmes from satellites by MATV installations, both new and developed from existing systems, and the period and terms of these licences should encourage the extension of cable systems into full cable networks

8. DTI believes that a carefully controlled expansion of Satellite Master Antenna Television (SMATV) will be beneficial to the cable industry by providing it with an early source of revenue, increasing the potential audience for programme services delivered from low-powered satellites and opening up new opportunities for equipment manufacturers.

9. On 23 May 1985 therefore Mr Pattie announced that a relaxation in the licensing of SMATV and other cable diffusion systems could be permitted, in a way which does not prejudice the subsequent upgrading of these systems into full cable networks. For this reason SMATV licences will be restricted in certain cases; the terms of such licences will be shorter; and the operator will be expected to give way in due course to any operator who is granted a wideband franchise by the Cable Authority covering the area in question. The Department's approach is therefore consistent with that advocated by ITAP in paragraphs 28 and 29 of the report.

RECOMMENDATION 5: Government should bring cable ventures within the scope of the Business Expansion Scheme, under the supervision of the Cable Authority, and should consider whether other suitable forms of assistance can be made available

10. Contrary to the impression given in the report, cable is not currently excluded from the Business Expansion Scheme since individuals can qualify for relief on investments of up to £40,000 in cable ventures. The Panel's recommendation that companies investing in cable should also qualify for relief on investments of up to £500,000 is open to a number of objections. First, to extend the scheme in this way would have significant public expenditure implications. Companies wishing to invest in areas other than cable would press for similar treatment and these claims would be difficult to resist, particularly in relation to other forms of telecommunication systems such as the BT and Mercury networks. The cost to the Exchequer of even a limited extension would therefore be considerable and would be difficult to justify against the background of the Government's cable policy, which has always been that cable development should be private sector financed. A second objection to the recommendation is that the extension of BES to corporate investment would act as a fiscal distortion to investment decisions and would be inconsistent with the Chancellor's objective of seeking to minimise such distortions. The extension would also be incompatible with one of the primary objectives of the BES itself, which has been to encourage a wider share ownership through attracting individuals to invest in companies. Finally if companies were permitted to qualify for BES relief, problems of tax avoidance could also arise with some investments qualifying for relief twice. All these considerations point towards rejecting the Panel's proposals, particularly when the existing consortium relief arrangements which have been significantly extended in this year's Finance Act already effectively give relief to companies investing in cable operations.

11. The Panel's remaining proposals in this section are open to similar objections. The existing Loan Guarantee Scheme only extends to loans of up to £75,000 and is therefore inappropriate in the context of cable. But setting up a new scheme to cover all the costs of a cable system would be open to the same objections as those which apply to the BES proposal. The Panel's third suggestion - that the installation of cable systems should qualify for home improvement grants - falls within the responsibilities of the Department of the Environment. However, we understand that these grants are intended primarily to encourage the improvement and repair of older, sub-standard properties. To extend the scheme to cover the cost of cabling would therefore be inconsistent with its objectives.

RECOMMENDATION 6: Government should encourage the development of cable technology by the selective funding of a limited number of demonstrator projects

12. The Department agrees with ITAP that selective funding will be required to encourage cable operators to experiment with new forms of interactive service making use of advanced technology. The Department has therefore set aside £5m spread over a period of 5 years to provide up to 50% funding for the setting up and running of new advanced interactive services over wideband cable systems. Applications for this funding are currently being invited. Each successful application will be treated as a demonstration project which means that the Department will monitor the progress of the project over an agreed period of time and make the results available to the cable industry as a whole. It is hoped in this way to assist the development of commercially attractive interactive services by providing an effective test bed for those services, by increasing public awareness and by pulling through the underlying technology.

RECOMMENDATION 7: Subject to the views of the Houses of Parliament, the proposed Parliamentary IT system should be linked with the Westminster Cable network.

13. The idea of linking Government offices in Whitehall and the Houses of Parliament with a broadband cable network has been raised by Westminster Cable Company with DTI and with the House Authorities. There has been active discussion of the idea and Westminster Cable are considering more specific proposals.

14. Ultimately, of course, any decision on the implementation of such a proposal is for the House Authorities and the CCTA. The CCTA are currently undertaking their own study of the non-voice communications needs of Government Departments as a whole with a view to providing an integrated voice and non-voice services network across Government.

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