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May be relevant to your lunch
with the BBC. JKW 11/9.

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PRIME MINISTER

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Broadcasting Policy : Time for a Rethink?

Since taking an interest in broadcasting almost a year ago I have had a nagging feeling that our policy, post-Peacock, is not quite right.

After reading a major review of Cable Policy by the Home Office earlier this week and then discussing the agenda for our coming seminar, I feel even more uneasy.

Our first priority must be to make sure that the whole stance of our policy is right; to achieve this we must clearly separate the wood from the trees.

A digression: De-regulation in Financial Services

When I joined the staff of the LSE in 1965, I embarked on research in the area of regulation and competition within the City.

At that time, one of the most distinctive features of the City of London was the segmentation of the money and capital markets between different financial institutions, eg only the clearing banks had checking accounts, the discount houses handled bill finance, acceptance houses dealt with acceptance credit, only the building societies extended mortgages for home purchase, etc. Each of these segments of the market had a limited degree of competition and in return for the privileges they were granted agreed to operate a system of self-regulation.

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At the heart of the system was the Governor of the Bank, who like a good headmaster had a powerful influence over the boys (and staff), while rarely having to invoke the school rules.

This system, however, broke down.

Starting with Competition and Credit Control in 1971, the process of de-regulation has continued in most areas of the City - the most recent example being the 'Big Bang' deregulation of the Stock Exchange last year.

The reasons the system collapsed were:

First, technological change made the separation between different markets and between different institutions artificial and therefore impossible for the Bank to enforce;

Second, consumer dissatisfaction with individual services (eg the PIB Report on Bank Charges 1967, the Monopolies Commission Report on the Proposed Barclays-Lloyds merger 1968 etc).

Present Broadcasting Policy

The present position of the broadcasting industry has a number of features in common with the City as it was in the mid-1960s.

Broadcasting is a highly regulated industry in which different institutions have been created to satisfy different segments of the market for broadcasting services:

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- BBC 1 - initially a monopoly for public service broadcasting;
- BBC 2 - complement to BBC 1 to cater for minority tastes;
- ITV - to complement BBC 1 with entertainment etc and some education;
- C4 - even with three channels there was still judged to be a market for minorities;
- Cable - the Cabinet Office report advocated cable partly because of telecommunication policy and partly because there was judged to be a public demand for additional broadcasting to that already on offer;
- DBS - once again there was judged to be an unsatisfied demand, (the regulators would like one channel for sport, one for movies, one for children).

The fundamental assumptions behind our policy have been

- (a) spectrum scarcity
- (b) universality of service to all parts of the country
- (c) in return for their privileged positions the four territorial channels provide public service broadcasting

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The System under Pressure

The present system is being undermined for a number of reasons:

Technology

New technology is producing more new channels: eight new Astra English speaking channels in 1988; DBS (three channels) in 1989; other than the prospect of two more DBS channels plus others we might be able to negotiate from other European countries, which are not using them.

Spectrum scarcity

Until now broadcasting policy has been premised on spectrum scarcity. A recent paper by the DTI to MISC 129 suggested that through MMVS (Multi-point Video Distribution Systems), - sometimes referred to as MMDS -

"There is probably sufficient spectrum for something close to a national service of 20-30 channels to be provided using existing broadcasting technical standards. It has been suggested that commercially available equipment could be on the market within two years or so (though there must be uncertainty about this timescale)".

If true this is a bombshell.

Even if the timescale is larger - when questioned at the recent MISC 129 DTI officials suggested it might be 4-5 years rather than 2 - nevertheless the major reversal by the Government on spectrum availability will remain an astonishing piece of news to the market.

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Market demand

The recent Jonscher Report estimates that there is still a large market demand for television services in this country for which people are prepared to pay. The report suggests that revenue could be as much as £1.5bn per year - more than the total cost of existing television in this country .

The Peacock report recognised that technology was driving the industry forward but plumped itself for a specific solution: subscription through cable.

How should Government respond?

The present Government response is to allow change to take place in an orderly fashion while at the same time protecting the existing system of regulation and market segmentation. Hence present concern is to manage change - for example the change of status for Channel 4, a new system of ITV franchises, status of ITN, 25% for independent producers etc.

We also know that the Cable authority is effectively bust and that we are under pressure not just to protect every part of the old system (BBC 1, 2, ITV) but to offer protection to the new system (Cable and DBS) as well.

The Home Secretary is seeking to implement changes in a forthcoming Bill. The timetable for change is something as follows:

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|------------|------------------------------------|
| Late 1987- | |
| Early 1988 | - White Paper |
| Spring | - Consultation with industry |
| Summer | - Cabinet agrees new policies |
| Autumn | - Publication of Broadcasting Bill |

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But this is a Bill which will be aimed to take effect in 1993 - the time that the ITV franchises run out.

If, however, MMDS develops - and indeed if it does not - we are likely to be in a situation in which changing technology will make our present proposals redundant. Perhaps it is an exaggeration but it still has enough truth for it to be said that our new Bill could well shut the stable door after the horse has already bolted.

A New Approach

The time has come for us to have a fundamental rethink of broadcasting policy.

In the early 1990's it is highly likely that there will be not five or six but many television channels in this country.

Key elements of a new policy for this world might be:

1. The Level Playing Field

Government should not be in the business of picking technological winners in broadcasting. Neither should we be protecting one new technological development after another.

We should aim to create a level playing field in which broadcasting executives decide without being dominated by regulatory changes.

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2. Commercial Compensation

But what about companies which have invested (eg Cable, DBS) on the expectation that public policy would be protective?

This is a serious issue and needs further investigation.

3. Broadcasting Spectrum Availability

This looks like being far less scarce than we have thought up till now.

Once again, instead of DTI and the Home Office agonising over its allocation, why not decide (i) how much is needed for security reasons etc and (ii) then auction the rest for limited or extended periods., according to consumer and corporate demand.

4. BT-Mercury Duopoly

This creates a very uneven playing field at present. The case for liberalisation is very strong.

5. Public Service Broadcasting (PSB)

But what becomes of PSB in a world of many channels?

This again needs a radical rethink - possibly along the lines suggested by Peacock.

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6. Standards and Decency

How do we deal with standards in a competitive market?
We shall certainly have much less control than we do at present via the IBA and BBC. (A very good analogy is the diminished influence of the Bank of England in a really competitive City).

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