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10 February 1989

Mr. Bernard Ingham
The Press Office
10 Downing Street
London S.W.1.

Dear Bernard,

Sky Television's four new networks (Sky Channel, Sky News, Sky Movies and Eurosport) are now up and running. Later this year we will add two more (Disney and Sky Arts). It took Britain almost 50 years to get to four channels. We will more than double that within six months. We are rather proud that our launch on February 5 was such a success, and done in record time. Nobody has launched so many channels at once and done it so quickly.

We believe Sky is consistent with the government's desire to increase the diversity and quality of British television, and to see that done by private sector funds. We receive no state subsidy or licence fee, nor do we enjoy a monopoly of advertising revenues. We are risking our own funds, and we will fail or succeed on the quality of what we can provide.

The main problem we face is that, though the government has made it possible for more channels to broadcast, the rules and regulations governing the telecommunications essential to a television service remain highly restrictive. This is especially true of Sky News, Europe's first 24 hour news channel. Our aim is to produce a British CNN. That means having the ability to go "live" to breaking news events. Current regulations severely handicap our ability to do that. Unless the regulations can be loosened up there will never be a British CNN.

Our ability to go "live" has been hampered in several ways:

1. Microwave frequencies

Sky News cannot obtain its own microwave frequencies from the DTI for live outside broadcasts. Without them we cannot get our pictures back. The BBC and ITV, of course, have been allocated many such frequencies, often on an exclusive basis, by the DTI. We were sent by the DTI to see if they would share them with us. Not

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Surprisingly, they said no. So, Sky News is caught in a limbo between the DTI having handed over these frequencies to our rivals, and they refusing to co-operate. It's as if, as editor of The Sunday Times, I had to go to The Observer, for ink and paper, whose supply it controlled.

2. British Telecom tariffs

Without frequencies from the DTI, Sky News has been forced to use BT facilities for live broadcasts. This is enormously expensive and puts us at a severe disadvantage vis-a-vis BBC and ITV. Moreover, BT has refused to give us a contract or to quote prices which reflect our position as a bulk user of their service. Instead, we can only book frequencies on an ad hoc basis, at a cost of around £3,000 a day. This risks bankrupting Sky News within months and puts us in no better a position than, say, Zaire TV, which might use BT once a year.

3. Satellite Newsgathering (SNG)

The most efficient way to give live pictures from a location (e.g. Lockerbie) to our studios will often be to bounce them off a satellite. But, again, we are not allowed an allocation of such "uplink" frequencies and we are forced back again on BT's ground receiving facilities, which are prohibitively expensive (10 to 20 times the equivalent cost in America). True, uplink licences have been granted to six competitors to BT, but DTI regulations prohibit their feeding news from location to us which Sky could then retransmit on our news channel. The rationale behind these rules is too obscure to explain; but their effect is that the six licencees cannot compete with BT to provide us with an SNG service. So we then looked at buying our own portable dishes, to be moved to wherever a major story was breaking. Under present rules, we'd still have to lease the frequencies from BT at enormous cost, and they would want to send along two BT "minders" for the day at £250 a man, even though they'd have nothing to do. The ethos of the dock labour scheme seems to be well established in telecoms!

There are other rules and restrictions which affect the ability of Sky Television as a whole to operate effectively:

1. Restrictions on Sharing Satellite Dishes

While individual homes are permitted to install a satellite receiving dish, sharing a single dish among two or more households (whether two residents in terraced housing or a semi-detached home, or adjacent flats in the same block) requires a special licence known as "SMATV" (Satellite Master Antennae TV i.e. putting a dish on the roof of a tower block and wiring up each flat) from the Cable Authority (CA). These licenses are complicated, expensive and unavailable (except to cable operators) in any area which has been franchised for cable or is even under consideration for cable franchising in the near future.

These regulations exist solely to favour cable technology and contravene the Government's approach, stated in the Broadcasting White Paper, not to pick winners or artificially determine the relative success of different technologies. A number of cable operators are developing SMATV services and Sky hopes to be on them. But in most of the country no cable is being laid and yet the Cable Authority will not let anybody else SMATV buildings, even on a temporary basis. The result is that most people who live in flats will not be able to receive Sky.

More than seven million homes are currently in 51 areas franchised or advertised for cable franchises and are therefore "off-limits", except to cable operators (several of whom have held cable franchises since 1984 and have yet to build systems). Many more homes will be off-limits as the CA undertakes its programme to grant franchises for most remaining areas in the next year or so. Even outside cable areas, the cost (a minimum annual fee of £115) and complexity of licensing (e.g. filing Ordnance Survey maps and a 4 page application form) is prohibitive.

Lastly, these regulations do not apply to British Satellite Broadcasting's DBS service. BSB's service can be shared amongst multiple dwellings using a single dish without CA licensing, a major inequity as DBS is functionally identical with Sky. All we ask for is a level playing field.

2. Planning Restrictions

Planning regulations present further restrictions. Individual homes are permitted to install a small satellite dish without planning permission, but not two dishes - regardless of how unobtrusive. And there is discrimination against flats. To take the example of a row of two-storey terraced houses, any which have been converted into flats require planning permission - while neighbours with externally identical homes do not. Furthermore, even purpose built flats - if under fifteen metres in height - require planning permission and are limited to a maximum of two antennas regardless of the size of the blocks.

These regulations clearly place an unnecessary burden on local planning authorities to determine planning applications which are not strictly necessary, confuse the public as to when planning permission is required for the erection of satellite antennas (and why), and will generally hinder the development and growth of satellite broadcasting.

3. Must-Carry Regulations

Another inequity are regulations by which cable and SMATV operators are required to make BSB's signals (and future UK DBS channels) available to cable subscribers. There is no such "must-carry" rule for Sky and other satellite programme

services, despite their functional similarity. This can be a serious competitive disadvantage, particularly where cable and SMATV systems have channel limitations and must carry BSB's service before Sky's. Essentially, television distribution from DBS and non-DBS satellites requires regularity parity. Again, a level playing field is all we ask.

4. House of Commons Sound Feed

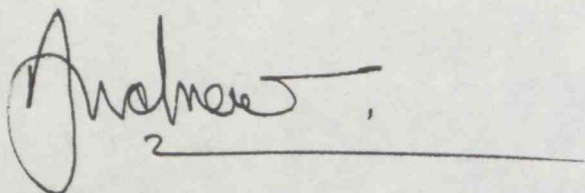
Sky News has been unable to obtain the sound feed from the House of Commons as the authorising body, the Committee for Sound Broadcasting, has not been reconstituted since the last General Election. This prohibits Sky News from broadcasting prime minister's questions, which we'd like to do twice a week. Again we are stuck in regulatory limbo: only the committee can grant permission and it does not exist. John Wakeham has promised to do what he can. My fear is that, without a speedy resolution, Sky News will be unable to cover the budget.

We are also concerned that Sky may not receive access to experimental television coverage of the House if principal authority is given to BBC and IBA contractors (the latter including BSB as well).

I'm sorry this has turned out longer than I thought. But the restrictions are many and the rules complicated. There have been times in the past few months when I thought I was still living in the old Britain of the 1960s and '70s. I'd be grateful for any help you can give us.

With best wishes.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "Andrew F. Neil". The signature is written in a cursive style with a long horizontal line extending to the right.

ANDREW F. NEIL
Executive Chairman