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1 March 1984

MR TURNBULL

Prime Minister (2)

CABLE AND SATELLITE BROADCASTING

An encouraging report, especially on cable television.

I attended the Financial Times Conference on "Cable Television and Satellite Broadcasting" this week.

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Cable

I was greatly encouraged by the enthusiasm and activity shown by cable operators, programme providers, equipment manufacturers and advertisers in response to our policy on cable. Although there are many problems still to be resolved, the general feeling was that the private sector is now responding to the opportunities which our policy is opening up.

The plans of the consortia selected to run the eleven pilot cable franchises are well advanced. These consortia are planning to provide cable services to nearly 1 million homes in the City of Westminster, Ealing, Croydon, Windsor, Guildford, Swindon, Coventry, South Liverpool, North Glasgow, Aberdeen and Belfast. Transmissions should begin in 1985/86.

Various consortia have also been established to provide national cable programmes. The greatest initial interest is in film, sports and music channels, although local programming should follow. A closer assessment of business opportunities has already seen some rationalisation among national programme-makers, and this week has seen the announcement that two of the three groups planning premium film channels have merged. Several of these programme channels will be launched in the next few months in existing cable areas in the UK. This will be a good test of the potential interest in the pilot and subsequent franchises.

There is also encouraging evidence that the UK is learning from the mistakes made by the US cable companies. The US delegates largely dispelled the impression that the American experience casts doubts on the commercial viability of cable. Several companies have gone out of business, but this appears to be more a failure of the companies to assess the realistic business prospects, rather than a lack of market potential.

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The cable revolution will be entertainment-led, but will be followed by the world of interactive services when home banking and shopping will become commonplace. These developments are perhaps only a few years away, and in some parts of the country are here already. The Nottingham Building Society already offers home banking and shopping through telephone links, and it is likely that cable will accelerate the introduction of these systems. Cable and telephone links are likely to be complementary, with cable providing superior picture quality, and telephone links providing opportunities for national and international interconnections.

There are two areas of Government policy, however, which attracted criticism:

- the question of first-year allowances for cable systems
- the delays in granting formal licences for the pilot franchises.

Neither of these issues is a significant problem impeding the development of cable in the UK. Both are likely to be resolved in the next few months.

The Home Secretary informed the Conference that the position on first-year allowances will be resolved by the time the Finance Bill comes before the House. My impression is that the uncertainty on this point is more of a problem than the decision itself. Financial institutions are understandably reluctant to commit finance until the tax position is clear. Nevertheless, loss of first-year allowances could cause serious problems for some of the less well-established consortia, although I would not expect such a decision to affect the plans of companies like Thorn-EMI.

The second difficulty is that formal licences for the pilot franchises cannot be granted until the Telecommunications Act comes into force in July. The successful consortia have been offered letters of intent. These are likely to satisfy the well-established consortia, but could lead to potential delays of some months in a few cases.



DBS

I detected a reasonable amount of confidence that the current talks between the BBC and ITV companies on a joint venture DBS project will be successful.

The Government is likely to be faced with early decisions on extending the franchises of the ITV companies, on restricting new DBS entrants for 7 years, and for a favourable tax position for DBS investment. These will not be easy questions.

Although cable is likely to be a more revolutionary development because of the potential for interactive services, there is considerable interest in DBS. DBS is seen as complementary to, and not in competition with, cable. DBS will be a national service compared with perhaps 40 per cent coverage by cable. The BBC, in particular, emphasised the benefits of high definition television which satellite broadcasting will bring.

Leon Brittan made clear the Government's wish to see DBS succeed, but emphasised that public money would not be involved and that the development of DBS is a matter for commercial judgement.

#### Conclusion

The response of the market place confirms that our policy on both cable and DBS is correct.

We should continue to create the right environment for these developments, and to remove obstacles as and when they arise.

We should not, however, use public money either directly or indirectly to stimulate investment. Not only is this not necessary, but it would distort what is a rapidly evolving, vibrant and dynamic competitive market.

The UK is well placed to take full advantage of these developments, which will bring real jobs and wealth to the economy. We are about to enter a new electronic age, the impetus for which has come from the Government's market-based and far-sighted policies.

DLP.

DAVID PASCALL





Pa  
Dms  
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10 DOWNING STREET

Prime Minister

I am not sure  
whether you had  
time to look at  
this over the  
weekend.

Dms  
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A stylized handwritten signature in blue ink, consisting of several sharp, angular strokes.