Prime Minister [4]

Helpful background to the DBS/Cable/Telecom debates.

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PRIME MINISTER

BROADCASTING, NARROWCASTING, COMPUTERS AND TELEPHONES

Over the next few months, you are going to hear a lot about satellite TV, the regime for BT, the problems of Mercury and the future of ICL and INMOS. I thought it might be helpful for you to have a brief aide memoire setting out the interconnections and the problems.

Converging Technologies

There are now around 8 different strands of technical development and policy with considerable overlap. They are reviewed below:

1. Cable television. A system for sending several broadcast channels through a cable to subscribers who receive it through their ordinary television set, paying a fee to the cable transmitter. The system requires a set, programme providers, and a cable franchisee. Up to 40 channels of service are offered. There are already 11 cable franchises granted, and services begin in a matter of months.

2. DBS. Satellite broadcasting is a partial competitor of cable. It will relay 5-channel broadcasts to the individual television set with national coverage via a satellite dish receiver in the recipient's house. A decoder is also required. The customer pays the satellite company and the equipment providers for receiving the service. There is again the need for programme providers and the technical provision of the satellite services and related equipment.

3. Video cassette recording and video disks. VCRs have already achieved considerable market penetration, and in the early stages of the competition have seen off the video disk. People mainly use VCRs for shifting their times for viewing TV programmes, and as a means of enjoying home movies by hiring cassettes. The video disk provides a television picture and a sound channel, mainly concentrating on popular music, but has lost out because it does not also have a recording facility. This is shortly going to be remedied. Video has revolutionised the pop industry, and now each major pop music release is

accompanied by a pop video. The home video is a competitor of both cable and DBS in so far as they are all supplying popular music and home movies. In other ways they are complementary.

4. BBC and ITV. Conventional television transmission through 4 channels, which has now achieved 97 per cent penetration of all UK households. Purchase of the basic television is being extended by the addition of teletext services for information provision. There will be an increasing tendency for the television to become part of an interactive system in the home, receiving messages in and, linked to the telephone or cable, sending messages out to buy theatre tickets, make reservations in hotels and book train and plane seats, etc.

5. Interactive cable systems. A logical development of the cable system is to use it to link telephone, television and commercial establishments outside the home. There are powers under existing legislation for interactive cable, but BT and/or Mercury have to be involved if it is used to transmit telephone conversations.

6. Cellular radio phones. Licences have already been granted to enable mobile phone systems for home, travel and commercial use to route messages around the country through a series of linked local transmitters sending the messages in the form of radio waves.

7. Conventional telephone systems operated by BT and Mercury. These are in direct competition with cellular radio phones, and will be in partial competition with interactive cable systems when they get off the ground.

8. Computer technology. All developments in telecoms now hinge upon the successful application of micro-processor technology. The development of more computer services produces a need to transmit computerised data between different users. In due course this will include the home as well as the business. Things like computerised medical records, bank account statistics, and shopping details will all flow along phone

lines or cables linking phones, TVs, home and business computers. The future of domestic chip production, of domestic conventional computer manufacture, and the convergence of telecoms and computer technology is therefore a live issue.

The Next Decisions

These can, for the sake of succinctness, be grouped into 4 broad issues.

1. What should the competitive regime for BT look like? Some of the decisions have already been taken. Interactive cable competition in voice telephony is allowed on a limited scale by the current regime. Cellular radio phone is being given a reasonable head. The next decisions will be about price controls on BT monopoly services, about strengthening Mercury as a competitive force, and about the financial details of the BT flotation.

2. What framework, if any, should the Government set for satellite transmission? There is a battle under way betwen Unisat - based on a consortium of ITV and BBC companies; and Britsat - an independent operation which will sell programming space to any of the companies capable of buying it. It seems likely that the Government will want to make more encouraging noises about the desirability of satellite, but there will be problems in resolving the dilemma between Britsat and Unisat. It will be important to examine how much competition there is in programming for the satellite capacity, and whether there are any financial risks for taxpayers.

3. What should be the future of the regulatory and cash framework for BBC and ITV? We believe that the ITV lobbies for a relaxation of their franchise terms to accommodate their investment in new technology should be resisted. There is, however, a case for looking at the basis of the franchise competition as many subjective judgments have to be made. Having all the franchises up for redistribution at the same time is somewhat cumbersome.

There are more fundamental questions to be raised with respect to the BBC. Some people are sceptical about the longevity of the BBC licence fee as a mechanism for funding the Corporation. Thinking should now be under way as to whether a new kind of funding is required in the medium term and, if so, what that might be. Judgments on this will be influenced to a great extent by the developments in cable, satellite and other entertainment mechanisms which will squeeze BBC's effective market share quite considerably.

4. <u>The computer industry</u>. Questions will be arising shortly over whether BT should buy ICL or IBM equipment; whether in the medium term BT might take over some computer manufacturer; what the future of INMOS should be; and whether there is any attraction in the UK teaming up with AT&T (with guarantees for UK content and jobs) in an effort to prevent IBM world dominance. BT will raise the question of a joint venture with IBM on value-added network services.

David Pascall is deeply involved in all these issues, and will keep you posted.

<u>JOHN REDWOOD</u>