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nbpm

DMS
20/12

20 December 1984

PRIME MINISTER

BROADCASTING

Several issues in the broadcasting field are coming to the boil.

1. BBC Licence Fee

A decision on the BBC's request for a £65 licence needs to be taken in the light of the value for money report (due in January) and the longer-term scenario.

Cable and DBS technology will reduce the BBC's attainable market share and together with home computers and Value Added Network Services (VANS) will convert the television into a piece of household equipment, rather than an outlet solely for the BBC and ITV.

When the BBC was founded there was no commercial offering and therefore the BBC rightly saw itself as having a duty to provide as wide a service as possible. This is no longer true. Is it therefore right for the BBC to continue to strive for 50% of the audience and to continue to be represented in everything from breakfast TV to local radio?

Today, the objective of true public service broadcasting must be to provide something more than the commercial offerings. This means different or of higher quality: what it cannot be is a carbon copy but without the adverts. If the BBC is to provide a public service, particularly one that people will be charged for irrespective of whether they

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use it, then it must be a quality service. This rather than a share of the audience or full coverage should be the BBC's objective.

The first flat-screen TVs are on the market at a price of £99. Second generation flat screens will be available before 1990 and these will not activate detector vans. They could have the same impact on TV licences as transistors had on radio licences.

The life of the licence fee as we understand it must be limited by these technological factors. Furthermore, as BBC's share of TV usage declines, justification for the licence fee must decline with it, and ultimately the preparedness of the majority of the population to pay it must come into question.

There are four basic ways that the BBC can be financed: the current system of a tax on TV users; a straight subsidy from Government; some form of advertising; or some combination of these.

Many would consider advertising to taint the BBC's quality image, others would see it as a sensible undermining of the BBC's Reithian aloofness and financial arrogance. All of the vested interests will be against it: the ITV companies will be concerned at the erosion of their monopoly and possible reduction in their revenues. They will ensure that the advertising agencies sing a similar tune and tell horror stories of how the advertising barrel is dry.

The right solution could be for the BBC to continue with a level of licence fee income but be allowed, not instructed, to top it up with a controlled amount of advertising. This would leave the decision in their hands. And if they contract down to just true public service broadcasting, then they may not need it at all.

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Such changes to the BBC cannot be implemented this time round: we need to prepare the public first. Equally, having already raised the level of public expectation both on advertising and the £65 licence, we must be seen to take action. The right compromise could be a 2-year licence (which will give a lower rise anyhow) increased by no more than the true rate of inflation; together with the announcement of an Inquiry into how advertising can be introduced.

ITV

If the BBC do adopt a more "quality" approach, then any advertising they do will not necessarily affect the volume or price of ITV's; and even if it did, this barrel is clearly not dry yet. Radio advertising is less desirable: it would compete directly with the financially weak independent companies and generate comparatively little income from a barrel that is almost dry.

The ITV levy is currently the subject of a review between Government and the IBA. The high marginal rate of tax and levy on ITV profits (84 per cent) must reduce their incentive to tight management which the BBC argue causes high wages and bad working practices for them as well. If the franchises were auctioned with the price being paid in instalments over the life of the franchise, then the levy could be eliminated and overall more income be raised. This would substantially reduce the marginal tax rate and significantly increase the incentive to good management.

The ITV franchises come up for renewal in 1989 (unless deferred as a result of the DBS concession). If they were to be auctioned, it would be sensible that any advertising on the BBC be introduced well in advance of this date, and hence only a 2-year BBC licence should be approved.

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We therefore recommend:

1. That the BBC should concentrate on quality and not strive for 50% of the audience or representation in all broadcasting media.
2. That in the medium term the BBC be financed partly by licence fee and partly by advertising if a top-up is still required (but recognising that ultimately the licence may have to be replaced by a direct subsidy)
3. That in future the ITV franchises be auctioned and the levy abandoned.
4. That the present BBC licence be extended for not more than two years.
5. That to create the climate where such changes would be acceptable we set up an inquiry to report by end-1985 on how advertising can be introduced into BBC services.

2. Radio

Here again technological advance is undermining our current policy. The capital required to set up a pirate radio station has reduced dramatically - a transmitter can cost under £100. Some stations have had their equipment confiscated several times, yet still remain on the air with replacement equipment.

At the same time, we have burdened legitimate local radio with heavy regulatory requirements. Ownership, technical quality and actual output are all regulated in addition to frequencies. We therefore have the worst of all worlds: pirate radio putting out the continuous music the public wants to hear but which we want to stop; and local radio

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that is prevented from giving the right product and carries extra cost burdens as well. It is not surprising therefore that pirates exist or that Norman Tebbit thinks it would be a political banana skin to rigorously enforce the law in the present circumstances.

If we relaxed the licensing requirements and only regulated those things that we have to - frequency and morality standards - then legitimate operators would be able to compete with the pirates' product, and the cost incentive for illegal operation would be dramatically reduced. We could then enforce the law.

Fears that such a unregulated system could be abused are probably ill-founded. The legalising of CB radio dramatically reduced its attraction and has caused none of the excesses feared.

The other concern is shortage of frequencies. Many other countries get round this problem by allowing prospective operators to identify and apply for unused frequencies rather than the Government determining what is available.

Better still would be to abandon the BBC's unique practice of simultaneously broadcasting programmes on both VHF and MF. This is illegal in the US. Most radios now accept both VHF and MF, and there is no sense in rationing the available spectrum for the small number that don't.

This new spectrum could be used for establishing community radio. However, there is a danger that much of this could be "ethnic" radio, and could result in entrenching an undesirable degree of ethnic separation.

We therefore recommend:

1. That the regulatory requirements for radio broadcasting

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should be reduced and cover only morality standards and interference.

2. Prospective operators should be permitted to apply for unused frequencies rather than the Government determining them.
 3. The BBC should abandon simultaneous broadcasting on both VHF and MF.
 4. Once the proper environment for radio has been created, the law should be rigorously enforced.
3. Direct Broadcasting by Satellite (DBS)

Following the meeting in May this year when against your better judgement it was agreed that a new 50/30/20 consortium of BBC, ITV and others should organise British DBS using the UNISAT satellite system, the inevitable now appears likely to happen. The consortium's report (due to be delivered to the Home Secretary before Christmas) is anticipated to show that the project as originally envisaged would not be viable without Government support.

The cost of the mandatory use of the UNISAT satellite appears to be almost double that of alternatives. Whether DBS would be viable if this constraint were relaxed is not clear, but apparently the ITV companies had been under the impression that provided they could not be held responsible for the collapse of DBS, then the extension of franchises permitted beyond 1989 would remain. They now recognise that this would not be the case, and may consider it worth financing an unprofitable DBS in order to gain the benefits of extended franchises.

There has never been any proper justification for insisting on the UNISAT satellite and this should be removed. Nor is there any reason why the BBC should have a 50% involvement, indeed, there are better reasons for saying the BBC should not be involved at all. We are unlikely now to have any technological lead, and whilst DBS would be nice, it should not be at the expense of the taxpayer.

Agreement on a European broadcasting standard - 20/10 MAC - prefer to retain the old analogue system (PAL) until high definition TV can be introduced early in the next decade. One must wonder whether delay for this somewhat esoteric advantage is worth the cost in data transmission facilities foregone that the 20/10 MAC system affords.

We would therefore recommend:

1. That the requirements to use the UNISAT system and for the BBC to have a 50% stake should be dropped. In return we could require some concession on the franchise extension.
2. If the consortium still falters then it should be allowed to fail.
3. The 20/10 MAC broadcasting standard should be adopted.
4. In view of the history of this subject you could consider a meeting of Ministers to ensure a correct strategy is adopted.

4. Cable TV

The removal of capital allowances and low take-up rates in pilot schemes have jeopardised the viability of cable. Relaxation of the high technical specification for the cable

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networks and of the area and pace of population coverage would ease the burden until the industry is stronger. It could compromise some of the VANS benefits - eg for shopping or working from home - but better something than nothing. Similar arguments apply to maximising export potential.

There is also concern over the viability of the programme providers, particularly if the cable base shrinks. At present union practices forbid both BBC and ITV (but not apparently Channel 4) from using the product of independent producers. If a change to this practice was made a condition of the new licence fee and new franchise arrangements, then everybody except those enforcing the restrictive practices could benefit.

An alternative to help the programme-providers on which cable is ultimately dependent, would be to take a more positive attitude to licensing Satellite Master Antenna TV (SMATV) for hotels and blocks of flats whereby a very local cable network is established within such buildings for multiple users.

Cable operators are also encountering difficulties in local authority rating valuations of their cable (they claim as much as £50 per subscriber compared to an equivalent of as little as £1 for an ordinary telephone cable). Government is also insisting that in order for cable operators to be granted PTO status permitting them to dig up streets etc with minimum bureaucracy they must undertake to supply voice communication services along their cable. This is unrealistic.

We therefore recommend:

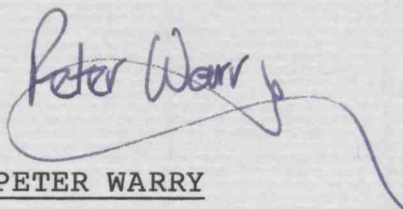
1. That technical and coverage conditions on licences should be relaxed until the industry is stronger.

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2. BBC and ITV should be stopped from boycotting the products of independent programme providers.
3. That a realistic approach be taken to some of cable's rating and PTO problems.



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David

cf: I told Mr Wamy that I agreed
with this. He will brief on the
licence fee for the PM's entry
with the Home Secretary at £500
on 9 Jan.

I held Chris up and told ^{DBS}
Peter Wamy he should talk ^{19/12}

to Home Office first.

In my view

- Home Sec needs to clear his
lines with PM - licence fee
and study of future options
- PM has done DBS and
does not need to intervene
again
- PM is not best interests i
development of cable; let
market decide
- She could do without getting
into private radio.

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PRIME MINISTER

14 December 1984

SEMINAR ON BROADCASTING

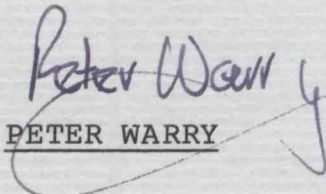
There are a number of issues brewing up: a BBC licence fee to last until 1988 is under discussion, pirate radio is regularly in the news as well as the subject of interdepartmental correspondence, the new cable television consortia are in difficulties (Windsor may collapse any day), the joint consortium on Direct Broadcasting by Satellite (DBS) report should be delivered to the Home Secretary next week and is expected to say that it cannot be viable as originally envisaged.

A meeting of Ministers (principally Home Office and DTI) could be worthwhile. The DTI could welcome such a move but Home Office officials would argue that as ground rules for Cable and DBS have only recently been set, a review would be premature despite the difficulties clearly being encountered.

It is not proposed that the meeting should discuss the present licence fee application but instead determine the longer term backdrop into which the new licence fee will fit.

Outline briefs are attached on the four main areas. You could also consider extending the meeting to cover BBC external broadcasting (following the recent review) and/or radio telecommunications (cellular radio, private mobile radio etc).

Would you like such a meeting in the New Year?


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BBC Licence Fee

The internal value for money report is due in January and the new licence rate not earlier than April. Technology (Cable and DBS) will reduce the BBC's attainable market share and convert the television into a piece of household equipment rather than an outlet solely for BBC and ITV. Genuinely portable flat screen TVs will be available by 1990 and could have the same impact on TV licences as transistors had on radio licences.

Issues

1. Should the BBC continue to strive for 50% of the market despite the widening number of outlets? Should it continue to cover everything from breakfast TV to local radio?
2. Can and should it continue to be financed through the licence fee?
3. Should it allow advertising and if so on selected services or all? Could its use be left to the discretion of the BBC to top up any perceived financial shortfall?
4. Excessive salaries and working practices in the ITV companies are pushing up BBC's costs as well, should the ITV franchises - licences to print money - be auctioned?

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Cable

The removal of capital allowances and low take-up rates in the pilot schemes have jeopardised the viability of cable. If there are too few cable franchises then the programme providers will also be at risk. If successful, cable will provide the domestic infrastructure for Value Added Network Services - VANS - (eg shopping or working from home) as well as providing entertainment. But with the exception of home surveillance systems (eg fire alarms) VANS have not taken off in the US. The Government has set a high equipment specification in order to give the UK the best possible Cable network and to maximise export potential.

Issues

1. Should technical and/or coverage conditions on the licences be relaxed until the industry is stronger?
2. Should Government be more willing to licence Satellite Master Antenna TV (SMATV) for hotels and blocks of flats in order to aid the programme providers whose survival is vital for all?
3. It is claimed that local authority rating valuations of up to £50 per subscriber are being made compared to as little as £1 for telephone cable, could a more realistic approach be adopted?
4. Should all cable franchises be granted PTO status so permitting them to dig up streets etc with minimum bureaucracy?

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Direct Broadcasting by Satellite (DBS)

A decision on the European broadcasting standard (20/10MAC) is close. The BBC might prefer to stay with the old analogue system (PAL) until high definition TV can be introduced in the next decade. This would prevent any VANS use until then. Following the debacle of BBC's go-it-alone approach (at an unresolved cost to UNISAT of £50 million), a consortium of BBC (50%), ITV (30%) and others are finalising their proposals and are likely to suggest the project as originally envisaged could not be viable without Government support. To make DBS worthwhile for ITV Government has already legislated to allow ITV franchises to be extended beyond 1989. The BBC could be happy if British DBS aborted and thus conventional technology were retained.

Issues

1. Should the use of the UNISAT satellite (apparently twice the cost of alternatives) be reviewed? Should the BBC's 50% level of involvement also be reviewed?
2. If the DBS consortium still falters, should other means be sought to prop it up?
3. Should the 20/10MAC broadcasting standard be adopted?
4. Should 'open skies' broadcasting be permitted or should there be legislation on quality and morality standards and also on encryption and piracy of signals?

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Radio Broadcasting

The capital required for radio broadcasting is reducing rapidly. Pirate radio, both on and offshore, is causing interference and providing unfair competition with licensed stations who have to carry high overheads. Enforcement of the law is difficult (even though transmitters can be seized) and currently impossible outside territorial waters. Legalising CB radio dramatically reduced its attraction and its deregulated use has caused none of the excesses feared. Government would like to encourage small businesses and perhaps community radio provided they stay within the law.

Issues

1. Can the law be enforced, and if so, should it be (cf shop opening hours)?
2. To what extent can the licence requirements be relaxed? Should we opt for a free (unregulated) market in radio only avoiding interference? Could operators apply for unused frequencies (as in the US) rather than Government determining them?
3. Should community/ethnic radio be established or is it likely to entrench undesirable ethnic separation?
4. What should be done about pirates outside territorial waters?
5. If shortage of radio spectrum is at the root of our problems should the UK - almost unique in the world - persist with simultaneously broadcasting programmes on VHF and MF?