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Prime Minister

Foreign and Commonwealth Office

London SW1A 2AH

20 November 1987

I love to say

that this does not

seem to deal with

Dear Charles, your points at all. It simply reorganizes the Foreign Secretary's earlier position.

External Television Broadcasting

Agree to insist on inviting tenders

The Foreign Secretary has seen your letter of 6 November and subsequent minutes from the Chancellor, Home Secretary and Secretary of State for Trade and Industry.

from BBC and ITN?

There is a consensus that the present BBC proposal is a major improvement on past plans, not least because the BBC are for the first time ready to take a significant commercial risk. There is also clear concern, which the Foreign Secretary shares, to ensure that Ministers' decision should not give the BBC any unfair advantage over ITN.

The Foreign Secretary sees the problem as being how to take account of the very significant differences between the BBC and ITN. The Home Secretary rightly points out that we do not start with a level playing field. ITN also realise this. They have all the normal commercial channels for raising risk capital, through ITV. The BBC and the external services, by contrast, face important constraints:

- the external services can spend their grant-in-aid only in accordance with our decisions on priorities;
- the BBC cannot borrow money or give guarantees without government approval;
- BBC enterprises do not have adequate resources to get a service off the ground;
- licence fee money cannot be used for programmes aimed primarily at overseas audiences.

The Foreign Secretary gave careful thought to the possibility of simply inviting tenders from the BBC and ITN. But he came to the conclusion that this was not feasible, given the very different circumstances of the two organisations as explained above. ITN have in any case not formally submitted alternative proposals, nor do they wish to work on the basis of FCO prescription, as the external services now do.

The Foreign Secretary does not exclude support for distribution of the ITN product (or anyone else's), on its merits, in the light of our overall information objectives. We have this week confirmed with Mr David Nicholas that ITN would wish to be able to bid for this. ITN are in any case contractually committed, for the next 2½ years at least, to producing Superchannel in its present format.

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ITN's fundamental concern is about competition from what they have described to us as a "Rolls Royce" BBC service funded by HMG. Having looked afresh at it, Sir Geoffrey Howe remains convinced that this understandable concern would be substantially met by a decision which precluded any significant new money for the BBC. He is confident that this could be successfully presented to ITN, to the public generally, and in Parliament. *No - whatever happened to competition policy?*

The Foreign Secretary has thought very carefully about Lord Young's suggestion that funding should be made available to the BBC on commercial terms, rather than as a grant. But here too there are problems of comparing like with like. A grant, repayable over a longer period, could also risk embroiling us in negotiations over longer term support of the BBC's service, perhaps involving further requests for loans or delay of repayment.

The Foreign Secretary has also reconsidered the extent to which external television broadcasting would make an effective impact on our priority third world and closed society target audiences. He believes that external TV can become an important element in our overseas information effort worldwide. Although the service would be directed at our priority targets, it makes sense also to take advantage of the significant potential for contributory revenue from the OECD countries. It is in the vernacular radio services to these countries that he would be looking primarily for the BBC to make immediate savings to meet the costs of pump-priming for TV.

Against this background the Foreign Secretary hopes that the Prime Minister and colleagues can now agree that he should offer to reallocate a small element of the BBC's present grant-in-aid to enable them to get an external TV service off the ground. The BBC service would then have to stand on its own feet, on a par with ITN. It could then make no call on public funds, except for distribution and in competition with other broadcasters. The Foreign Secretary would, of course, continue to bear in mind the points on funding and sponsorship made by the Chancellor and Home Secretary respectively. And any reductions in radio services to release funds for TV would of course be taken into account in setting the next triennium funding.

I am copying this letter to Alex Allan (HM Treasury), Philip Mawer (Home Office), Tim Walker (Department of Trade and Industry) and Peter Smith (Chancellor of the Duchy of Lancaster's office).

Done over

R N Culshaw

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Private Secretary

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