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*From the Private Secretary*

10 March 1988

*Dear Jeremy,*

HOME AFFAIRS SELECT COMMITTEE: INQUIRY INTO  
BROADCASTING

The Prime Minister has seen the memorandum attached to your letter of 8 March. She is content for this to be submitted to the Home Affairs Select Committee.

I am sending copies of this letter to the Private Secretaries to members of MISC 128 to to Trevor Woolley (Cabinet Office).

*Yours,  
Paul*

Paul Gray

Jeremy Godfrey, Esq.,  
Department of Trade and Industry.

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dti

the department for Enterprise

cc: [handwritten initials]

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

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Prime Minister

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Direct line 215 5422  
Our ref PSLALM  
Your ref  
Date 8 March 1988

Dear Paul

HOME AFFAIRS SELECT COMMITTEE : INQUIRY INTO BROADCASTING

The Home Affairs Select Committee has invited DTI to submit a memorandum in connection with its inquiry into broadcasting.

Lord Young thought the Prime Minister and MISC 128 colleagues might like to have sight of the memorandum before it is submitted, and I attach a copy of the latest draft, about which Home Office and Treasury officials have been consulted.

X [ The memorandum responds to some specific questions raised by the Select Committee when requesting it. One of these concerns the availability of frequencies for additional terrestrial channels. Although MISC 128 has yet to consider the outcome of the various technical studies on the scope for additional programme services, we do not think it tenable for the memorandum to be entirely silent on the emerging conclusions of the studies. Paragraphs 21 to 24 therefore lift the veil just a little, but without compromising Ministers' future consideration of the policy issues. ]

**dti**

the department for Enterprise

The final deadline for submission of the Memorandum to the Select Committee is Thursday, 10 March.

I am sending copies of this letter and enclosure to the Private Secretaries to members of MISC 128 and to Trevor Woolley (Cabinet Office).

*Yours*

*Jeremy Godfrey*

JEREMY GODFREY  
Private Secretary

  
the  
Enterprise  
initiative

HOME AFFAIRS SELECT COMMITTEE: INQUIRY INTO BROADCASTING  
DTI MEMORANDUM

This memorandum deals mainly with DTI's responsibilities for telecommunications policy and the administration of the radio frequency spectrum as they bear on broadcasting. It also comments, at the Select Committee's request, on the industrial and commercial implications of new means of delivering television services. First, however, it sets out, in paras 2 - 5 below, the wider context to DTI's interest in broadcasting matters.

The wider context

2. DTI's role is set out in the White Paper "DTI - the department for Enterprise" (Cm 278). The responsibility of Government in assisting the process of increasing prosperity is to create the right climate so that markets work better, and to encourage enterprise. DTI works closely with other Government Departments in taking a view of business as a whole and its activities affect the interests of many of those who participate, directly or indirectly, as suppliers and customers in the broadcasting market.

3. DTI is responsible for encouraging an open and competitive economy. It acts through competition policy, through privatisation, through deregulation and through international trade negotiations. Open markets must be informed and fair, in whose workings individual investors and consumers can have confidence; but regulation to achieve that must be kept to the minimum level possible.

4. In this context DTI plays an important part in helping to formulate and encourage the adoption of international technical standards. The Department's Radiocommunications Division (see paras 6-8 below) coordinates UK participation in the International Consultative Committee on Radio of the International Telecommunications Union (CCIR), and the Department participates in other international technical and standards fora in the telecommunications field and more widely.

5. DTI is responsible for encouraging enterprise. Its activities range from stimulating business-education links and the spread of management education to initiatives to improve information on new methods and innovation. In this context DTI encourages innovation through collaborative research and technology transfer. In the broadcasting field support is being given to participation by UK industry and broadcasters in an important European collaborative Eureka project; the project seeks to develop a standard for the production and transmission of High Definition Television (HDTV) compatible with the MAC (Multiplexed Analogue Components) standard used for Direct Broadcasting by Satellite (DBS) in Europe. DTI also coordinates UK interests in other international programmes, including the RACE programme for advanced telecommunications in Europe, which may have important longer-term implications for broadcasting as telecommunications and broadcasting increasingly converge.

#### Direct DTI responsibilities

6. DTI's Radiocommunications Division is directly responsible for international policy and planning of radio frequency spectrum for broadcasting; national planning of radio frequency spectrum for broadcasting, including radio and television terrestrial networks and satellite broadcasting; activities in the CCIR and other international technical fora; and radio interference questions in relation to broadcasting.

7. Radiocommunications Division also acts as technical adviser to the Home Office on broadcasting matters for which the Home Office is responsible, including policy relating to the use by broadcasting services of frequency bands allocated nationally for broadcasting, licensing under section 1 of the Wireless Telegraphy Act 1949 of all broadcasting activities, and technical standards for broadcasting applications.

8. In relation to cable, DTI is responsible for issuing the licences required by cable systems operators under the Telecommunications Act 1984 and for the application to cable operators of the telecommunications code. Through its Technical Working Group on standards for wideband cable systems, DTI has

also helped ensure the drafting of the national standards necessary for the effective introduction of wideband cable.

9. The rest of this memorandum deals with the specific matters raised by the Committee in their request for a DTI memorandum.

(i) The policy on the regulation of telecommunications systems as they relate to those franchised to provide cable television services by the Cable Authority

10. The Government's general policy towards telecommunications is to promote wide and effective competition in the three main sectors of the market, namely the supply of equipment, the provision of services and the running of networks. This process has been a gradual one so as to establish effective competition and to give all concerned an adequate opportunity to adjust to the new competitive environment. These latter objectives are reflected in particular in the policy towards the provision of basic telecommunications services set out in a statement by the then Minister of Information Technology, Mr Kenneth Baker, in November 1983.

11. In that statement, Mr Baker made clear the Government's commitment to effective competition in telecommunications, but also recognised that the creation of a competing network required very large investment. The Government therefore made clear that they did not intend to license operators other than British Telecommunications plc and Mercury Communications Ltd to provide the basic telecommunication service of conveying messages over fixed links, whether cable, radio or satellite during the seven years from that statement. This seven year duopoly is intended to allow Mercury time to establish its competing national network, and also to give British Telecom time to adjust. The Secretary of State for Trade and Industry made it clear, in a Parliamentary statement on 17 February 1988, that the Government remain fully committed to this duopoly policy. The position is due to be reviewed in November 1990.

12. Cable systems are recognised as providing a potential further

source of competition in telecommunications. In addition to their Cable Authority licence, broadband cable systems are licensed by the Secretary of State for Trade and Industry under the Telecommunications Act 1984. In common with other public telecommunications operators like BT and Mercury, broadband operators have the powers of the telecommunications code (power to install apparatus in the street and, with the appropriate consents, on private land) applied to them. Broadband operators are licensed to provide the full range of telecommunications services within their franchise areas with the exception of voice telephony (and of data in five business centres) which can only be provided in conjunction with BT or Mercury. Three of the ten licensed franchisees have already reached agreement with Mercury to be able to supply such services.

13. Satellite Master Antenna Television Systems (SMATV) are also licensed by the Cable Authority and under the Telecommunications Act to provide one way television and text channels. They are not licensed to provide any other telecommunication service. SMATV systems are not public telecommunications systems and their operators do not have the power of the telecommunications code applied to them.

(ii) Restrictions on the use of terrestrial transmitters operated by the BBC and IBA

(a) general

14. There are considerable external and internal constraints on the changes that can be made, particularly in the short term, to the existing terrestrial transmission network. Because radiowaves do not respect international frontiers, each television transmitter needs, under the International Radio Regulations, to be agreed with any other country within interference range of that transmitter (and interference range may be several times the range at which a usable signal can be received). International agreement covers the location of the transmitter and its main operating characteristics (power, type of emission, polarisation, aerial directivity). Once agreed, any changes to these

characteristics must also be the subject of prior international agreement.

15. Additionally, the task of achieving virtually universal coverage within the UK of four channels within a limited allocation of spectrum has led to a highly concentrated and carefully balanced network of approaching 4,000 transmitters. Any significant change, particularly to the higher powered transmitters, can have substantial implications for other parts of the network.

16. Some minor adjustments could however be made on a local level to accommodate the changes which might be required to the existing network were it decided to authorise additional TV services at either national or local level. The existing transmitter network could also carry additional data or telecommunications services, subject to considerations of telecommunications policy, provided the additional services could be contained within the transmission characteristics of the television signal and did not therefore create interference.

(b) transmission to closed user groups

17. As far as telecommunications legislation is concerned, for systems and services in the UK the Telecommunications Act 1984 requires the licensing of every telecommunications system with certain exceptions. One category of exception, applying only to broadcasting authorities, is the transmission by wireless telegraphy from a transmitting station for general reception of sounds, visual images and some signals.

18. The IBA and the BBC do not, therefore, require Telecommunications Act licences for the broadcasting of material for general reception. General reception may also include the transmission of material to subscriber user groups, even in encrypted form, provided that decryption equipment is made readily available to potential subscribers.

19. The basic test of whether a service is being offered to an open "subscriber user group" is to ask if the service is available



to anyone who wants to receive it and at a reasonable cost. For example, if a company wanted to send confidential in-house price information only to its retail outlets, and did so in such a way as to bar access to anyone except the intended recipients, this would not be an open subscriber user group but rather a "closed user group". This distinction is important because the transmission of material to closed user groups does not fall into the category of "general reception", so broadcasters would need Telecommunications Act licences in order to provide such services. It is open to the Secretary of State for Trade and Industry to grant a Telecommunications Act licence to allow such services, but the granting of a licence for this purpose falls within the duopoly policy, which is explained in para 11 above. The Government would not, therefore, expect to grant such a licence at least until the duopoly is reviewed in November 1990.

(iii) Availability of frequencies for additional terrestrial channels

20. Following the Prime Minister's seminar on broadcasting last September, the Government commissioned technical feasibility studies into the possibility of providing additional television services. These studies, which are nearing completion, cover the UHF channels currently used to provide the four national TV services and five neighbouring channels which are presently used for other purposes in the UK; VHF bands I and III, which were formerly used for black and white television but which have since been allocated to allow the much needed expansion of mobile radio services; and at frequencies above 1 GHz using the technology known as microwave video distribution systems (MVDS).

21. The UHF study suggests that an additional national television service covering 65-70% of the population should be possible, from around 1992, by using two of the channels between Bands IV and V which are currently used for other purposes.

22. The study of VHF bands I and III is still considering whether it is possible to identify sufficient spectrum to accommodate a broadcasting service, available to a substantial proportion of the population, which would be free from interference to or from existing or committed mobile services.

23. A study of MVDS by Touche Ross has concluded, on the basis of DTI's assessment of the maximum amount of spectrum that it might be possible to make available, that six and possibly up to twelve television services could be provided in due course to areas covering 70% of the population.

24. It is emphasised that these are preliminary technical findings, and that no decisions have been taken as to whether or not any new services should be allowed. The studies have also identified the penalties that would be involved in making spectrum available for additional broadcasting services, both in terms of the effects on existing and planned users, and in terms of opportunities forgone for using the spectrum for other purposes. Other constraints and disadvantages associated with each option will also need to be taken into account. Ministers have undertaken not to reach decisions about new services without first considering carefully the possible impact on existing and prospective services, including the terrestrial broadcasters, DBS and cable.

25. There are also two further DBS channels allocated to the United Kingdom. The Government will consider making these two channels available after British Satellite Broadcasting Ltd's service has been in operation for at least three years.

(iv) Whether the enforcement of regulations relating to the use of transmitters frequencies and cable licences can be satisfactorily achieved within the present resources of DTI

(a) radiocommunications

26. The Radio Investigation Service (RIS) is the enforcement arm of DTI's Radiocommunications Division. Its job is to keep degradation to authorised radio communications to an acceptable level, to investigate interference and to ensure that the use of radio and radio frequencies throughout the spectrum conforms to licence and regulatory requirements. Enforcement work arising from the present level of broadcasting activity can be contained within present staffing levels.

27. Expansion of terrestrial television services at UHF or MVDS is not expected, if permitted, to result in anything more than a pro rata increase in complaints from the public which can be contained within existing staff limits. Any new services in VHF (Band I), which is susceptible to interference through abnormal propagation conditions (sporadic E) could however result in a higher level of complaints from the public.

(b) cable licences

28. Cable licences, like other Telecommunications Act licences, are granted by the Secretary of State for Trade and Industry under the Telecommunications Act 1984 in consultation with the Director General of Telecommunications. The Department of Trade and Industry is therefore responsible for the initial preparation of the licences and for the completion of the required statutory consultation procedures. Staffing for these purposes is adequate and does not therefore cause any delay in the issuing of these licences. Responsibility for the subsequent monitoring of licence conditions and their enforcement (with the exception of conditions relating to application of telecommunications code powers where enforcement is a matter for the Courts) rests with the Director General of Telecommunications. Staffing of the Office of Telecommunications is a matter for the Director General.

(v) Industrial and commercial implications of the expansion of television services into satellite and MVDS technology

29. The expansion of TV services into satellite and (if permitted) MVDS technologies offers, in principle, substantial commercial opportunities including:

- the opportunity to build new businesses in the operation of new services;
- new avenues for advertising and marketing, particularly internationally through satellite broadcasting;
- a wider market and new outlets for programme-makers;

- demand for equipment, both professional and consumer, and infrastructure and services.

30. The extent of the opportunities cannot be forecast with any certainty. There is however evidence to support the widely held view that there is substantial unmet demand for additional programme services, which suggests that the commercial opportunities could be very large. The large and growing market in videocassette sale and rental (estimated at c£500M for 1987); viewing figures from cable franchise areas showing a significant proportion of viewing hours devoted to channels other than the BBC and ITV/Channel 4; and the successful development of new channels in other European countries are all positive indicators. The evidence of research work, such as that undertaken by CSP International (now Booz Allen and Hamilton) for their study on subscription for the Home Office, points the same way.

31. New services have already been stimulated in the UK by the Cable and Broadcasting Act 1984. A number of new businesses have been formed in the cable field, and although progress has not been as rapid as many initially hoped, it is estimated that over £200M has already been invested in UK cable, and UK-based cable programme providers (such as Sky Channel, Superchannel and Screen Sport) are expanding into Europe. BSB plan to invest over £600M in the provision of 4 high quality services broadcast on three channels by DBS to UK homes from late 1989. While the Government has not yet decided whether to licence additional TV services, interest is already being shown by potential service providers.

32. The market for international TV advertising by satellite is still in its infancy. Industry sources estimate that satellite television accounted for only 0.35% of total television advertising revenue in Europe last year (estimated at \$8.3Bn), and relatively few companies have yet embraced European or global marketing strategies to exploit this new medium to its full extent. The market seems certain to grow, though at what pace is unclear. As 1992 approaches and with it the completion of the Internal Market satellite television could become a valuable tool for businesses developing common marketing campaigns across Europe. This could represent a major opportunity both for UK advertisers and the UK advertising industry.

33. The extent of the programming opportunity is particularly difficult to assess. New services will widen the market, and satellite opens up new means of access to international markets. The amount of money available for the commissioning of new original programming will depend on service providers' ability to penetrate a large market and thus generate income. The price at which programmers can produce will also be an important factor.

34. The provision of new programme services will create new demands for equipment and services. In addition to the conventional infrastructure required by any service organisation, operators will require studio facilities; transmission equipment and services; and encoding equipment and subscriber management facilities in the case of subscription services. Consumers may require additional reception equipment: antennas, signal converters, and decoders for subscription services. DBS services in particular offer the prospect of improved picture quality, and this may encourage consumers to upgrade their equipment to take full advantage of this. In the longer term DBS offers the scope for upgrading to High Definition Television using the compatible system under development in the Eureka project referred to in paragraph 5 above.

#### UK capability

35. In principle UK suppliers are capable of meeting most if not all of the likely requirements of prospective new service providers. The UK has a flourishing programme production and post-production sector, a successful and highly-regarded advertising industry, a strong and innovative studio equipment sector and major strengths in transmission equipment. The UK is also a significant manufacturing base for consumer electronics equipment, notably television receivers, and has a considerable capability in associated components.

36. The extent to which UK industry and commerce exploit the potential opportunities will depend on their own assessment of the market and its prospects, and their willingness to undertake whatever investment and development may be necessary to ensure they are able to meet the demand in competition with other prospective suppliers.



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