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Dear Douglas,

ADDITIONAL PROGRAMME SERVICES

I have read with interest your memorandum MISC 128(88)5.

I am sure you are right to say that our task is to create an enabling framework, and equally that it is not for Government to pick winners. The question of timing is important, and I have to say I am not yet persuaded of the case for delaying the introduction of any new services for a number of years. We shall clearly need to examine this point in some depth at MISC 128 on 21 April.

The main purpose of this letter, however, is to set out some points on the approach to new services at local level, discussed in paras 17-19 of your memorandum, and in particular the implications for our policy in this area of convergence of broadcasting and telecommunications. There may be issues here on which officials could usefully do some further work.

First, it may be helpful to colleagues to have set out in a little more detail the thinking of the Communications Steering Group, which underlines the so-called "technology neutral" approach to the provision of local services. To that end I ... attach a short paper prepared by my officials on the Steering Group's thinking, with which I very much agree. The main theme is that convergence is happening now, and we cannot afford to take decisions on the framework for the next ten years without taking that fact into account.

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Second, we should not be too quick to attach the "monopoly" label to the technology neutral approach. As set out in the attached paper, the Steering Group envisages that a local TV service franchisee, able to use cable and MVDS technologies, would have to compete for viewers with the off-air services (including a fifth channel, if it goes ahead), DBS and Astra (as well as video shops). In any case, as paragraph 18 of your memorandum notes, even if transmission in a particular area were in the hands of a single operator, there would still be scope for competition in programme supply and, perhaps, retailing at the local level. Another possibility, which is touched on in the Official Group's report, would be the allocation of non-exclusive transmission franchises within an area. I think the feasibility of these various approaches merits further consideration and I suggest that officials should discuss the issues further, with a view to reporting back through the Chairman of the Official Group.

The promotion of local competition in telecommunications is important, but I do not think it is necessary to delay decisions on the broadcasting issues until after the telecommunication duopoly review. New local entertainment services would add to competition in broadcasting irrespective of the outcome of the telecommunications duopoly review, and they would therefore be worthwhile in their own right. If, in the light of the duopoly review, they could help to provide a basis for enhanced competition in mainstream telecommunications services, so much the better.

Finally, I agree that we should publish the results of the technical studies on the scope for additional TV services, and I suggest we ask our officials to put the necessary work in hand now with a view to early publication after we have discussed the issues on 21 April. On the question of a fifth or sixth channel at VHF, I agree with your conclusion in para 2 of MISC 128(88)5 that the VHF option is not worth pursuing further: especially as doubts have now been raised about possible interference with aircraft navigational aids and communication systems. Our consideration of the VHF option is a source of uncertainty to the mobile radio industry and users in their investment planning and to neighbouring administrations in their negotiations with us on related matters like the fifth channel we are pursuing at UHF. I see

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considerable advantage therefore in an early announcement that an additional TV service at VHF will not be possible. If you and colleagues agree, perhaps such an announcement could be made by written answer within the next few days. This would save the time of the Home Affairs Select Committee in pursuing the subject when my officials appear before them on 20 April.

I am copying this letter to the Prime Minister, to other members of MISC 128 and to Sir Robin Butler.

*Yours,
David*

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BROADCASTING AND TELECOMMUNICATIONS : THE WORK OF
THE COMMUNICATIONS STEERING GROUP

Note by the Department of Trade and Industry

Purpose of the Paper

1. This paper summarises the views emerging from the Communications Steering Group set up by MISC 131 to advise on the future of the electronic communications infrastructure. This paper covers only those aspects of the Steering Group's work which are relevant to the relationship between broadcasting and telecommunications.

The Impact of Technology on Policy Options

2. The communications scene is characterised both by increasing diversity and the breaking down of barriers between technologies. Electronic communications transmission media are increasingly overlapping. Digital transmission will soon make distinctions between the information being carried (whether visual images, telephony or data services) unsustainable.
3. This has major implications for policy towards all forms of electronic communications. Both in broadcasting and telecommunications, policy so far has been technology-based. Particular forms of communication have been seen as the natural province of particular transmission technologies. These divisions are already being blurred. BT transmits live racing events to audiences of off-course punters. The BBC and IBA broadcast text and data for use by business. There is a choice to be made between continuing with the

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previous technology specific approach which already shows signs of inflexibility or taking a more radical view so as to provide a framework to accommodate advances in technology.

4. The Communications Steering Group set up by MISC 131 has been considering the ways in which the electronics communications infrastructure might develop in the future. MISC 131 has yet to consider its findings but the Group has concluded that an enforced division between delivery technologies each subject to separate controls on what and how services can be carried is no longer an effective means of meeting consumer demand. The user does not in practice care how a service reaches him providing it does so cost effectively. The user's interest is that technologies should be freely usable in whatever way seems best to meet user needs as conveniently and cheaply as possible. Seen in this light the most important consideration in promoting effective service through competition is that policy (including regulation) should be technology-neutral. If not we may lock ourselves into non-optimal technology configurations in developing the infrastructure and the services carried over it.

Broadcasting and Telecommunications : The Steering Group's Approach

5. How would such an approach affect broadcasting and telecommunications given that BT and Mercury are currently barred from transmitting TV over their main Public Telecommunications Operator networks and the BBC and IBA are barred from telecommunications? Cable has a foot in both camps but has not so far really taken off. There are constraints on the competition possible between transmission networks. These include the high costs of market entry. Recognising this, the Steering Group favours the

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introduction of a comprehensive system of local renewable franchises for the provision of new TV and other one-way services whether information or entertainment is involved. These one-way franchisees should be free to choose from the delivery technologies available the mix they see as best suited to meet the demands they identify in their area. The mix will vary over time. The franchisees would contract with the producers of such services for their delivery to end users. Open competition for entry to the market would be retained through periodic competition for the franchise. It might also be possible to have competing franchisees in some areas. Franchises would need a population of 500,000 upwards for a variety of delivery media to be able to be used effectively within them.

6. The outcome of the telecommunications duopoly review starting in November 1990 cannot be pre-empted. One outcome of this might, however, be that such one way franchisees could be allowed to move into the provision of two-way telecommunications services at any time they wished to do so. This could provide a potential source of competition in two-way communications at the local level in the 1990s. To turn this into actual competition, franchisees would need to develop the cable element of their delivery systems. That in turn could open up the way for Government to permit British Telecommunications and Mercury to transmit TV services over their telecommunications networks in those areas. This both makes sense in technology terms and would inject more competition in TV delivery at the local level.
7. This is a radical approach achievable fully only in the long term. Mindful that Government is not starting with a blank canvas, the Group advocates a series of measured changes. First, the Group sees advantages (in terms of efficiency and the encouragement of competition) in the separation of the IBA and BBC transmission networks from their programme - provision activity. That apart, the four

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off-air channels would continue to be provided and transmitted as at present. DBS services too would continue to be provided in the way currently envisaged. Second, the winners of any franchises for a Fifth or Sixth Channel should be free to determine their own transmitting arrangements, though it is likely that these will mirror the arrangements for the four off-air national channels. Third, the Group advocates the creation of the technology-neutral regional franchises identified above for the provision of additional local TV and other one-way services. Government should leave it to franchise winners whether they wish to deliver the services by cable, by MVDS (if allowed by Government) or by any other technology - and, in turn, whether they wish to involve the ex-IBA (or BBC) transmitting companies in their transmission arrangements or not. Those franchisees will face competition from the four national channels, from any fifth or sixth channel and from DBS in their provision of entertainment services and from BT and Mercury in their provision of other one-way services (since these can readily be provided over the conventional two-way telecommunications network). Fourth, Government should continue to encourage the development of competition in "two-way" telecommunications services at local level. The ways in which this can be done will depend on the outcome of the telecommunications duopoly review starting in November 1990. Prior to the review one-way franchisees would be free to use cable and MVDS (if licensed) to provide telecommunications services within the current duopoly controls. If the review then enabled the one-way franchisees to move freely into two way services during the 1990s the expectation should be that before too long the prohibitions on British Telecom and Mercury carrying TV services over their telecommunications networks could be lifted. This constraint is needed now in the interests of encouraging competition. But it produces both economic and technological distortions; and Government should seek eventually to dispose of it.

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8. These ideas represent a distinct change in approach. The Steering Group believes they provide a way to increase meaningful choice for the consumer, and a more flexible framework to allow the full capabilities of new technologies and services to be exploited. Unless a credible evolutionary path to the development of competition at the local level in two-way (ie telecommunications) services can be sustained new TV services seem very likely to kill off most cable developments. Much will depend on the telecommunications duopoly review, but if cable did not prosper BT could be left as the predominant force in local telecommunications delivery for the foreseeable future. Current prospects for cable are not good enough to warrant denying users other access to new TV services for which there is a demand. In any case this should not be a judgement for Government. But in the Steering Group's view the opportunity for entertainment service providers to evolve by way of cable into telecommunications should not be foreclosed.



BROADCASTING — LEGISLATION ON BROADCASTING
PART 2.