



10 DOWNING STREET
LONDON SW1A 2AA

File
Sent.
BG

From the Private Secretary

15 April 1988

Dear Jeremy,

ADDITIONAL PROGRAMME SERVICES - VHF

The Prime Minister has seen your Secretary of State's letter of 12 April to the Home Secretary. She is content for your Secretary of State to make an early announcement indicating that an additional TV service at VHF will not be possible.

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

Yours,
Paul

PAUL GRAY

Jeremy Godfrey, Esq.,
Department of Trade and Industry

da



QUEEN ANNE'S GATE LONDON SW1H 9AT

15 April 1988

Dear Lord Young

ADDITIONAL PROGRAMME SERVICES

file with R
Thank you for your letter of 12 April.

I agree that the question of the timing and phasing of the introduction of any new services is one of the most important issues before us, and will require considerable discussion.

As regards technology-neutrality, I agree that it would be helpful if officials discussed the various options further with a view to reporting back through the Chairman of the Official Group. But I would like to register my concern about the consequences for the timing of the White Paper. It is well known that we are conducting a fundamental review of broadcasting policy and we have been under pressure for some time to announce our conclusions. This pressure is now strong. I am clear that we should aim to publish a White Paper before the summer recess. We are sufficiently far advanced on most of the major issues before us (the reform of the ITV system, Channel 4, subscription and the night hours) to make this a realistic aim. I am, however, a little concerned that if we do approach MVDS in a way which links it to future telecomms scenarios - and that may well be the right thing to do - we shall not be able to reach conclusions in time for a July White Paper. There is also the considerable awkwardness about the link between all this and the review of the BT/Mercury duopoly which is not to be undertaken before November 1990.

It would be undesirable either to delay unnecessarily announcing conclusions on those matters on which we had reached decisions, or to rush into difficult, long-term decisions on local services. One possibility would be to decouple the question of local services from the remainder. We could still aim to cover the main part of the agenda (including any additional terrestrial channels on UHF) in a July White Paper, but defer announcing our views on local services, perhaps only until the autumn (and perhaps in the form of a Green rather than a White Paper). We could signpost clearly in the White Paper that a further announcement on local services would be made before too long. This would, of course, still allow sufficient time to legislate on local services in the 1989/90 Bill if we wished to do so, and if we were clear that we could do so in advance of any wider changes to the telecomms environment.

Perhaps I could make one or two comments on the discussion in your letter, and the accompanying paper, of technology-neutrality. First, the extent to which the technology-neutral approach would involve the creation

/of local

The Rt Hon Lord Young of Graffham

of local monopolies would naturally depend on the degree to which local franchise-holders were allowed to develop vertically integrated businesses free from competition. If their franchise covered both the transmission and retailing of services (which is basically the approach advocated in the paper you circulated) then they would have a monopoly over local services, just as broadband cable operators do now (although they would, as you say, face competition from national services). For the reasons given in my memorandum, I believe that we should be wary of incurring the disadvantages of local monopolies - in a situation where, unlike cable, they were not justified by heavy investments in infrastructure. But I welcome your willingness to consider the possibility of monopolies confined to the conveyance of services on a common carrier basis, thereby allowing for competition in the retailing of services, or even of non-exclusive franchises. I think that these are the kinds of possibilities which it will prove the most fruitful for officials to explore.

In their further work officials will also need to take account of the possibility of spectrum pricing, which I know is under active consideration in your Department following the CSP Report on spectrum allocation. Although this may be a relatively long-term prospect, if we decide to pursue it at all, it would be unfortunate if we created structures now which might inhibit the development of a spectrum market in the future. On the face of it, exclusive local franchises (of whatever form) would not sit easily with spectrum pricing, as only the local franchise-holder could bid to use spectrum in his area for those purposes in which he had a monopoly. The interface between technology-neutrality and spectrum pricing clearly needs a lot of thought.

I was interested to see the references in the paper attached to your letter to the possibility of lifting the prohibition on BT and mercury carrying television services over their main PTO networks. One of the starting points for the work of the Communications Steering Group was, of course, Peacock's recommendation 15 that BT and Mercury (and any subsequent entrants) should be permitted to deliver television services on a common carrier basis. I take it, however, that the Steering Group now envisage that BT and Mercury might provide programme services, not merely carry them on behalf of other operators. We will clearly need to consider this carefully in due course. In particular, it will need to be alert to a potential asymmetry between broadcasting and telecommunications policy. If the transmission and programme provision responsibilities of the IBA and the BBC need to be separated in the interests of competition and efficiency - as the paper argues - then it must be questionable whether it would be acceptable for BT at some stage in the future to act as both a provider and deliverer of programme services. (Although it might by then be facing competition from local operators it would still be combining two activities which, in the case of the broadcasters, the Steering Group has argued should be separated). Beyond pointing to this connection with the role of BT and Mercury, I have no comments at this stage on the proposals in the paper on the transmission responsibilities of the BBC and the IBA. I understand that MISC 129 has not yet completed its consideration of the transmission system, and I think that it would be sensible to wait until its analysis of the options and issues is to hand before reaching firm views.

/Lastly,

Lastly, I am glad you agree that we should publish soon the results of the technical studies, and I agree that officials should be asked to put the necessary work in hand. As my office has already told yours, I am also content with your plan to announce that an additional channel on VHF will not be possible.

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

Yours sincerely

Catherine Bannister

Approved by the Home Secretary
and signed in his absence.

BROADCASTING: Legislation



P42