

CCBEP

PRIME MINISTER

MEETING WITH SIR TREVOR HOLDSWORTH: TUESDAY 3 MAY

You asked Sir Trevor Holdsworth at the recent Plowden dinner to come in for a chat about broadcasting. You will recall he is the Chairman of British Satellite Broadcasting.

I have arranged the meeting so that it comes before the next meeting of MISC 128 to discuss additional programme services.

I imagine you will want to have a fairly general discussion with Sir Trevor about future broadcasting developments, but I enclose a list of specific points you could raise with him.

I also enclose a draft of the paper Lord Young is preparing for the next MISC 128 meeting on options for new programme services. This elaborates the ideas he mentioned to you earlier this week. You will not of course want to mention these specific options to Sir Trevor. ✓

PRCG.

Paul Gray

29 April 1988

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MISC 128 (88)

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CABINET

MINISTERIAL GROUP ON BROADCASTING SERVICES

OPTIONS FOR NEW PROGRAMME SERVICES

Memorandum by the Secretary of State for Trade and Industry

At the Group's meeting on 21 April (MISC 128 (88) second meeting) I was invited, in consultation with the Home Secretary, to bring forward a further paper on the options for additional programme services. I set out my views in this paper: time has not permitted the consultation with the Home Secretary sought by the Group.

Objectives

2 Our objective in allowing new services would be to help create a more competitive broadcasting market and to provide consumers with a greater choice of programme services. We should seek to achieve this in ways which:

- do not imperil the high standards of British broadcasting;
- do not undermine the commercial prospects of existing or prospective players (notably BSB);
- make efficient use of a valuable national resource, namely radio frequency spectrum.

The market

3 We do not know the extent of demand for new domestic services and at what price; nor do we know how much extra advertising finance is available to support new services. Reports by Booz Allen and Hamilton suggest that on both counts the unsatisfied demand is large. Moreover, transfrontier broadcasting is still in its infancy. The impact on the market of medium power satellites, such as Astra, offering a large number of channels, is unknown.

4 In the face of such uncertainties we have to find a way of allowing the market to test the opportunities without sterilising large amounts of spectrum. We need also to have the flexibility to allow scope for more services if the market demand emerges.

Technical considerations

5 The main technical possibilities for the delivery of new services over the air are:

i) a fifth channel at UHF, reaching 70% of the population, configured nationally or regionally. The cost to the consumer is low (£30-£100) but the displacement costs (moving existing spectrum users elsewhere) and the opportunity costs (in terms of alternative uses of spectrum) are significant.

ii) Up to 6 channels of MVDS at 2.5GHz, configured nationally, regionally or locally in areas covering 70% of households, but with large gaps within those areas. The cost to the consumer, at £250-£300, is fairly high, there would be no room at these frequencies for expansion to accommodate extra channels or High Definition Television (HDTV) transmission; there are large displacement costs, and use for broadcasting could preempt the possibility of finding bands for mobile communications on a pan-European basis in the longer term.

There might be advantage in permitting temporary (perhaps 4-5 years) use of frequencies at or near 2.5 GHz in current cable franchise areas. This possibility may not be advisable unless the

eventual availability of a higher frequency band at 12 GHz or thereabouts for continuing development of MVDS service can be guaranteed. That may depend on decisions on DBS.

iii) Additional DBS channels (over and above the two existing channels not allocated to BSB) offering 100% national coverage. There are several blocks of 5 channels each, either vacant or allocated to other countries who may have no plans to exploit them, for which the UK might apply. Some are at BSB's orbital position, and could be received on the same dish. Others are at a different orbital position, and could be received only with a different (or steerable) dish. At each position there are some channels which use frequencies in the same (lower) part of the 12 GHz band as BSB, and others which use frequencies in the upper part of the band, where we had identified scope for an MVDS service at 12 GHz. Use of these frequencies would preclude use of 12 GHz for MVDS.

The main options are set out below (and in chart form at Annex A):

- (a) using BSB dish and frequencies in the lower half of the band (ie compatible with MVDS at 12 GHz)

Only the Irish DBS allocation meets both
criteria. It might be possible to negotiate
shared or exclusive use of some of the Irish
channels; if so this would be a very
attractive option (particularly as such a
move would not seriously disturb the wider
DBS plan, and might be fairly easily
negotiated with interested third parties in
the ITU);

- (b) using BSB dish and frequencies in the upper
half of the 12 GHz band (ie ruling out MVDS
at 12 GHz)

There are five vacant channels in this
category, and some other national
allocations which might be open to
negotiation;

- (c) requiring second or steerable dish, but
using frequencies in the lower half of 12
GHz band (ie not ruling out MVDS at 12 GHz)

There are 5 vacant channels in this
category, in an orbital position close to
Astra.

- (d) requiring a second of steerable dish, using
frequencies in the upper half of the 12GHz

band (ie ruling out MVDS at 12 GHz)

There are ten vacant channels in this category in the orbital position close to Astra, but these would not be compatible with (b) above.

The availability of any of these channels is subject to uncertain international negotiation. The capital and consumer costs are both high, but DBS offers improved picture quality and, more particularly, HDTV potential.

- iv) If not ruled out by the allocation of spectrum for additional DBS services, up to 12 standard definition (or 5 high definition) MVDS channels at 12 GHz, configured regionally or locally in areas covering 70% of households, but with large gaps within those areas. The consumer cost of 12 GHz MVDS equipment may be around £500. MVDS at 12 GHz may not be practicable except in conjunction with cable.
- v) If MVDS at 12 GHz was ruled out by additional DBS services at 12 GHz, it might be possible to find some alternative spectrum for MVDS at 11 or 13 GHz. But we cannot say with confidence that sufficient spare spectrum to allow as many as twelve programme channels could be found.

6 A fifth channel will require an additional aerial, and MVDS fairly large (2ft) mesh or dish aerials mounted above the roofline. DBS requires a 1ft dish which may be mounted at eaves level or below.

Cable and convergence

7 On spectrum grounds, cable is the most attractive means of providing new services, as it has no spectrum or displacement cost at all. Its penetration, however, is not yet high enough for it to constitute on its own an effective way of meeting our objectives. Our approach to new services must, however, take account of the convergence of broadcasting and telecommunications, and of the fact that in the longer term cable may well become an increasingly important means of delivering services of all kinds into the home, particularly if the pressures for BT to deliver entertainment services become irresistable in the long term. The Communications Steering Group has advocated an approach to the carriage of services at regional and local level based on the concept of "technology neutral" transmission franchises - that is to say, Government would provide licences for the delivery of services in an area but would leave it to the licence holder to decide whether, and how, to mix cable and MVDS as his means of delivery. The spectrum possibilities (para 5(v)) are uncertain. Nevertheless I am sure that we should not lose sight of the concept of technology neutrality in our plans. Technology

neutrality becomes even more important if we are serious about promoting competition in telecommunications as well as broadcasting.

Argument

8 The rather stark conclusion to be drawn from this analysis is that, if we accept that because of their inevitably patchy coverage and dubious environmental impact neither of the MVDS options can on their own be considered a satisfactory means of delivering new services to a majority of the population, the only serious option for providing a new service by terrestrial means is a fifth channel at UHF.

9 I doubt whether a single new service will be enough to meet our objectives in the longer term. In particular, it may not supply sufficient additional advertising time to put significant pressure on rates: indeed, the recent Booz Allen work on advertising suggests that on present trends there will still be a significant undersupply of advertising time even with an advertising funded Channel 5. If Booz Allen's analysis is right, a fifth channel with no special programming obligations might be able to offer a significant amount of premium programming, and could thus be a very serious competitor to BSB. As noted in para 3 however, there are uncertainties, and we do not want to disrupt the market, and put our objectives at risk, by allowing the introduction of too many new services at once. If we want

(as I believe we should) scope for more than one new channel in the future, we need to reconsider how best to deploy the two technical options available to us - namely UHF and DBS, to give us as wide a range of options for new services as possible.

10 Each system has its strengths and weaknesses. DBS has important technical advantages over terrestrial systems. The MAC transmission standard being introduced for DBS gives clearer and sharper pictures than the UHF PAL system, and can offer several simultaneous high quality sound channels. In addition DBS offers the prospect of HDTV services by the mid 1990s. As noted in para 5(iii), depending on how many and which channels we managed to secure, DBS is a reasonably, and in some circumstances a very, spectrum efficient way of providing new services with national coverage (particularly when allowance is made for its HDTV potential). The costs are high, but the costs to the consumer may come down if the number of channels in prospect increases.

11 UHF has other advantages. In particular it gives scope for regional services, which are important not only in their own right but also to advertisers. A comprehensive transmission infrastructure is also in place. We should not abandon that infrastructure. But I believe the time is now right to consider using that resource in a more flexible way to exploit its particular advantages to the full.

The way forward

12 These considerations suggest that we should give more emphasis than hitherto to DBS in a policy which allows a migration towards cable in the very long term. They suggest also that we should seek, as a matter of policy, ~~to seek~~ to use DBS as the delivery mechanism for services where the content does not vary by region. The obvious ways of implementing this policy are twofold:

First, we should therefore bid within the International Telecommunications Union for additional channels. The options are set out in para 5(iii) above; I recommend we open discussions with the Irish Government as suggested at para 5(iii)a. The balance of advantage between the other options in para 5(iii) is a fine one. Although there is an additional spectrum cost, I favour the option - at the same time that we begin negotiations with the Irish Government - of seeking extra channels at BSB's orbital position (as set out at para 5 (iii)b . This approach does not require extra dishes, and therefore makes the expansion of DBS more straightforward for the consumer.

We need to recognise that we will not know for some months - perhaps even a year - whether we are going to be successful in these initiatives;

Secondly, we should require the BBC to transmit BBC-2 by DBS and similarly the IBA in respect of Channel

Four. Each service should be transmitted terrestrially as well for a short number of years; but we should make it clear from the outset that we intended within a set timescale to use those frequencies for terrestrial broadcasting. The opportunity so created to enable us to re-plan our broadcasting UHF arrangements should enable us to offer four or five new commercial channels, either nationally or regionally (though not all offerings would be available to more than 70 per cent or so of the population.

13 Proposals of this kind are radical and would, I do not doubt, encounter considerable opposition. Some will argue that Channel Four's and BBC-2's prosperity will be put at risk, because their future would depend also on the success of BSB in attracting substantial audiences (with the risk either that programme standards would have to fall or the services would not be attractive to advertisers). Others will argue that the proposals will create two classes of citizen - those who can afford dishes and receivers, and who will have the privilege of receiving BBC-2 (which is currently provided for the licence fee) and Channel Four, and those who will be dis-franchised.

14 I recognise that if the course I advocate were followed consumers would have to spend £200/£250 or so by the early 1990s to be sure of receiving BBC-2 and Channel Four. I appreciate the potential loss of consumer benefit implied by this - and the fact that some consumers may not find it

practicable to put up a satellite dish. But I do consider that my proposals represent a good deal for the vast majority of consumers who should as a result have access (a) to several DBS services receivable via a single dish and (b) to a range of new terrestrial services. I consider also that the proposals should be attractive to BSB (because the market for DBS services should be widened through these steps) and to BBC and Channel Four. A move to satellite offers BBC-2 and Channel 4 the opportunity to develop HDTV services, and would also pave the way for them to introduce subscription services (once their terrestrial service had been withdrawn). I am not convinced that with these possibilities, the prospect of consumers amortising the cost of a dish over 5 channels (and perhaps more later), and some more aggressive marketing, BBC2 and Channel 4 should not be able to make a success of their DBS-related service.

15 I recommend therefore that we should invite officials to do more work on the approach set out below:

- i) We should aim to make the maximum feasible use of DBS as the delivery mechanism for services where the content does not vary by region and should bid for additional channels within the ITU;
- ii) We should transmit BBC2 and Channel 4 on our unallocated DBS channels 4 and 5. We should make this change as soon as possible. These are not

new programme services and the "three-year undertaking" given to BSB does not apply. This might be funded either by negotiation between BSB, the BBC and the IBA over the use of spare capacity on BSB's satellites (BSB may well conclude that this use of the spare capacity is in its own commercial interests) or by the ITV companies in return for some form of contract extensions beyond 1993. Alternatively the transfer could be funded by payments from those who take over the spectrum so released, though the Government might have to provide the funds initially.

iii) BBC2 and Channel 4 should be required to give up their terrestrial frequencies in 1993 or 1994. These frequencies could then be offered:

either for several (possibly four or five) new commercial channels, either nationally or regionally, each covering some 70 per cent of the population. The Welsh channel, S4C, would continue on a terrestrial basis.

or as a second-best approach, for two new national channels providing near 100 per cent coverage.

iv) As they became available, further DBS slots should

be offered for new national services. Some of these might be on a subscription basis.

- v) We should not make any long-term commitment to MVDS at 2.5 GHz, though we should not rule out the possibility of its use in the short term in conjunction with cable (para 5(ii)). If MVDS at 12 GHz is not ruled out by additional DBS as it might well be, (see para 5(iii)), or if we can find alternative spectrum at similar frequencies, consideration should be given to the use of MVDS on a longer term basis in conjunction with cable. Final decisions on this would have to be left until we knew what additional DBS channels we were likely to obtain. If this option did remain open to us, "technology neutral" franchises should be offered for the provision of services by MVDS and cable (including telecommunications services) at the regional and local level. We should seek to separate the transmission function from the programme-provision function; and wherever possible to provide transmission franchises in ways (eg at least two franchise holders in a region) that were designed to encourage competition.
- vi) In addition, in the interests of starting at least one major new service as quickly as possible, the Fifth Channel at UHF should be

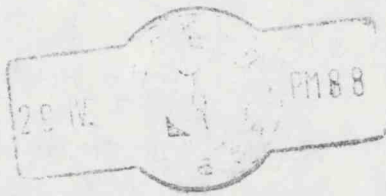
introduced on an advertising-funded basis not
later than 1992 - even though this will not meet
BSB's wish that a Fifth Channel be delayed to
1995.

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ILLUSTRATIVE TIMETABLE FOR INTRODUCTION OF NEW SERVICES

		Total UK channels (excl cable and MVDS)
1988	<u>possibility of Astra</u> - providing up to 16 pan-European channels	4
1989	BSB (3 DBS channels) ?Some use of 2.5 GHz MVDS for "cable pull-through, depending on legislative position	7
1990	BBC2 and Ch4 start simulcasting on DBS channels 4 and 5 Possible wider use of MVDS	7
1991		7
1992	Launch of UHF fifth channel	8
1993	Start of new ITV contract period Withdrawal of BBC2 and Ch4 terrestrial frequencies? Withdrawal of 2.5 GHz MVDS frequencies Possibility of bringing new DBS channels into play (assuming successful negotiation)	8-18
1994	2 or more new commercial services at UHF	10-20
1995	?Start of operational HDTV services	

Note: if negotiations for additional DBS channels were successful these might be available for allocation before 1993; but in view of commitments to BSB 1993 is assumed to be the earliest date at which they would be brought into use



PRIME MINISTER'S MEETING WITH SIR TREVOR HOLDSWORTH (CHAIRMAN,
BRITISH SATELLITE BROADCASTING)

Questions to Ask

- what opportunities will your services offer to independent producers?
- understand you have invited tenders from independents to provide a news service. How much interest has been shown? How do you think an independent might go about gathering international news?
- Why does BSB want to restrict set supply to three manufacturers? Isn't competition the best way of getting prices down?
3 probably gives the best hope of effective competition
- How do you view the possibility of competition from additional TV services? Which potential sources of competition cause most concern and why?

Background

BSB's services will offer a number of opportunities for independent producers and some contracts have already been put out to tender. In particular, following the collapse of discussions with ITN, BSB have invited tenders from independents for a news service of eight hours daily.

BSB intends to license only three manufacturers to supply decoders (allegedly to guarantee long initial runs and therefore low production costs) and have set in hand a pre-qualification process with a view to inviting bids to supply on this basis. BREMA (the manufacturers' trade association) have complained to the DTI that this is anti-competitive and were advised to take it up with the OFT. We understand that the OFT have now given BSB's plans a clean bill of health.

BSB are (at least in public) concerned about the threat which would be posed by additional TV services. They now take the view that the earliest reasonable date for the introduction of new services is 1995.

CF

PRIME MINISTER

I understand you would like to see Sir Trevor Holdsworth to discuss British Satellite Broadcasting. He could be available at 6 o'clock on Tuesday, 3 May, which falls conveniently a couple of days before the next meeting of Misc 128, and has suggested that he be accompanied by Anthony Simmons-Gooding and Graham Grist of BSB. Your diary for that day is attached.

| BF

Content to fit this in?

pas

Yes mt

PAB

25 April, 1988.

Tuesday, 3 May

0830	Hair
0900	Questions Briefing Team
0930	E(LF)
1030	Keep free for NLW
1200	E(EP)
1300	Lunch and Questions Briefing
1515	Questions
1545	Keep free for MPs
1600	Depart H/C
1615	Look in at Anglo/American Conference: Lancaster House
1700	Return to No.10
	Keep free for RC



10 DOWNING STREET

Dir Set

Andy

R'coz,

I've privately arranged
with Sir Trevor Holdsworth
for 6.00p.m. on 3rd May.
He'll be accompanied by
Anthony Simmons - Gooding
and (possibly) Graham
Grist.

PRC6
20/4