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John Young

SUBSCRIPTION

Thank you for sending me a copy of your minute of 19 August to the Prime Minister. *file with PS*

I agree that we should encourage the BBC to seek subscription, so that we can in due course wean them off the licence fee. But aspects of your proposals give me some concern.

In particular, I am not happy that the BBC should simply be given a free hand to exploit its night hours for the downloading of specialised services for business users. This seems to me to be some way removed from the BBC's public service remit, and to have nothing to do with subscription television as such. If it is thought right to raise revenue from such services to offset increases in the licence fee, then my preference would be for the services to be run by a private sector licensee chosen by competitive tender (the proceeds of which could be applied to reducing the licence fee). I see no reason why the ITC should not organise the necessary competition and regulate the content. The BBC could of course bid to provide transmission facilities, and perhaps other services, to the successful tenderer, and the proceeds could also be offset against the licence fee.

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We should, of course, have to be clear whether the Channel 3 and Channel 5 night hour licensees (or indeed Channel 4 in the night hours) would also be permitted to carry such specialised services, as this would affect the value of the licence on the BBC frequencies. In principle, I would see some advantage in at least a measure of terrestrial competition, although alternative delivery options should be available from the specialised satellite service uplinkers.

This does however raise a question of principle which we need to consider further. That is whether it is right for the broadcasting frequencies - particularly the UHF TV network which occupies a very large amount of spectrum for the purpose of providing universal coverage in the public interest - to be used for purposes other than broadcasting in the interests of the public at large. The BBC are already proposing a range of specialised services for businesses. Were the telecommunications duopoly to be relaxed after 1990, would we be prepared to see the BBC giving over some or all of the night hours to a wider range of services, including perhaps full-field data broadcasting to closed user groups?

Such an outcome might be considered ironic, in view of the effort and expense we are prepared to contemplate to make available a fifth (and possibly a sixth) UHF channel to expand consumer choice and market opportunities in broadcasting. A licence to provide programme services in the night hours on one of the BBC's universal coverage channels might be just as attractive to a new commercial entrant as a licence for a sixth channel with, say, 40% coverage. Yet the latter can be provided (if at all) only at considerable effort and expense and some years hence, whereas the former is available now and effectively for nothing. Viewed in this light, there is a strong case for putting at least one set of BBC night hours out to tender for a commercial programme service, rather than allowing them to be used for specialised business services which arguably make poor use of the universal coverage available on the BBC's frequencies.

I can see that there may be a case on scheduling flexibility grounds for leaving the BBC in control of the night hours on one of its channels; and we could encourage them to exploit the subscription potential for general (eg, niche entertainment), as opposed to specialised business services. Such services would help accustom viewers generally to paying directly for services received over the BBC frequencies, and thus could help advance our longer term objectives for subscription financing of the BBC. We should however be alive to the fact that if we do allow the BBC to go ahead with

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subscription several years in advance of the terrestrial competition, they will be well placed to influence very strongly the development of de facto standards for encrypted terrestrial transmissions.

The White Paper will need to make clear whether or not we intend to put one set of BBC night hours out to tender, but it need not go into any further detail about the use of subscription on the night hours retained by the BBC. I therefore suggest our next steps might be:

- (i) to confirm that one set of the BBC's night hours should be put out to competitive tender, as we earlier agreed, on the same basis as the rest of the commercial licences;
- (ii) to consider further (as far as is possible before the duopoly review in 1990) what range of services it would be appropriate to see carried over the UHF network in the future, and by whom, and the regulatory, competition and public services implications of the various options;
- (iii) in the light of that consideration, to decide what subscription services it would be right to encourage the BBC to develop, and on what timescale; and to authorise them accordingly. In the meantime, the BBC should be allowed to continue with the medical service experiment, but not to commence any further subscription services.

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

Y.L.
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BROADCASTING: Finances
Pt 6

