PRIME MINISTER 15 SEPTEMBER 1988

BROADCASTING REFORM: ITN AND THE FUTURE OF NEWS

I had a long meeting with David Nicholas last week at his request.

He wished to express how extremely concerned he and everyone connected with policy thinking at ITN are, (Alistair Burnet, Sue Tinson etc.), over the likely effects of de-regulation of Channel 3 on the news. He recognised that ITN might lose out from de-regulation of the ITV system, but that was not his major concern. It was that increased competition would almost certainly weaken ITN, leaving the BBC with a dominant position in news.

So strongly is this view felt within ITN, that if the White Paper argues for total de-regulation of C3, Alistair Burnet has decided to resign from the Board to campaign against such proposals.

The ITN View

It is worth spelling out the steps in this argument in some detail.

(a) De-regulation of news on Channel 3 will mean that the ITV companies will be able to buy news from any source.

(b) Some companies will almost certainly enter into a service contract with companies other than ITN (eg TVam) while others (eg Granada and Scottish TV) will probably start their own news service.

(c) As a result ITN will have no guaranteed air time or guaranteed source of income: almost certainly the quality of news will decline.

(d) After 1992 the commercial TV news sector will consist of a smaller ITN alongside other companies such as the news channel on BSB and Murdoch's news service for his satellite channel plus others; none of these however have resources comparable to the BBC.

(e) The BBC has announced that it is spending an extra £50m on news over the next five years.

(f) The result of all this is that the BBC will become the dominant news agency in the country: and the probability is that bias will become an even more important issue.

The conclusion reached by ITN is that news on Channel 3 should be franchised to one news operator as at present. ITN recognise that they would have to compete for such a contract and may not get it. But they believe that such a structure, which assures the country has a major independent news operator other than the BBC, is in the public interest.

Key Lessons from the World News Industry

Before examining the ITN case it is worth standing back from their particular circumstances to see the issue in a larger perspective.

1. **Growth of News**

The television news industry has been growing rapidly throughout the world, reflecting extended coverage on existing channels, and the creation of additional channels with a news component:

- In Europe, news coverage has been extended either to emphasize the public service element of broadcasting, or to give authenticity to new channels. (See Exhibit 1).

- In New York there are over 10,000 hours per year of news.

- The extension of news coverage has been encouraged by generally favourable ratings performance, (eg. ITN's News At Ten).

- As a result, commercial television revenues from news programming in the major countries outside the US now exceed $500 million.

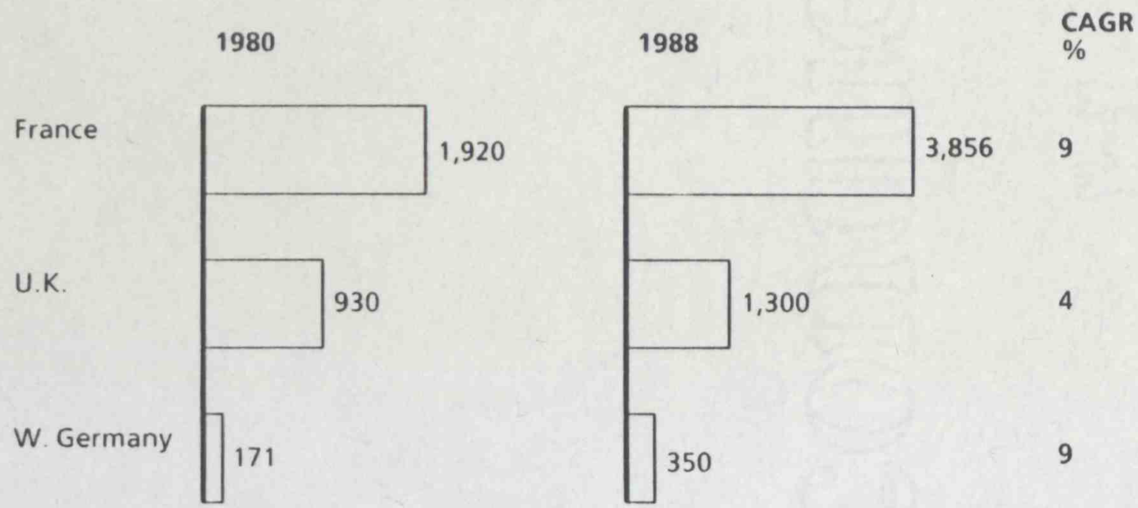
The television news industry in Europe is likely to maintain its rate of growth:-

- As the television industry continues to fragment, further channels will be added, many of them with a news component.

Exhibit 1

In Europe broadcast hours allocated to news have almost doubled since 1980

NUMBER OF HOURS ALLOCATED TO NEWS PROGRAMMES



Source: McKinsey analysis

- These will include channels devoted solely or primarily to news coverage, mostly carried on satellite (eg. Sky News, Now, Eureka).

This is encouraging from ITN's point of view.

2. De-regulation in the US

Over the past 15 years the three major networks in the US have been challenged by the new media, especially cable. (See Appendix I).

This has had a major effect on the news. Three trends are very evident:

(a) The enormous growth of local news (but with a national and international flavour) and the decline of network news.

(b) The emphasis on more features in local news.

(c) The growth of specialist companies in news eg. CNN, FNN.

3. Economics of US news

Costs of network news are far higher than CNN or BBC and ITN. A key element in this number of foreign bureaus (see Exhibit 2). This contrast is seen most clearly in the difference between CNN and NBC:

CNN - $150 per year for 24 hour news per day

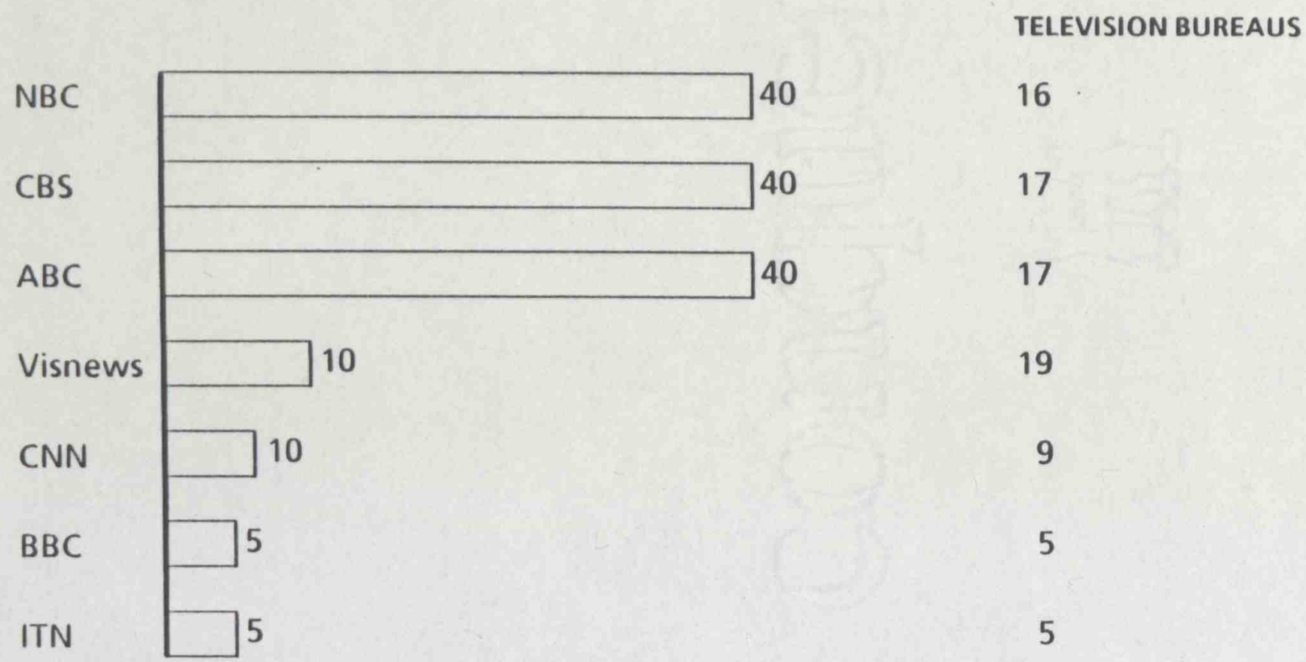
NBC - $300m per year for 1 hour news per day

Exhibit 2a

There is significant disparity between the international coverage costs of the 3 U.S. networks, and those of other broadcast news organizations

ESTIMATED

COMPARISON OF INTERNATIONAL COVERAGE COSTS AND INFRASTRUCTURES
$m



Source: NBC News; Visnews; BBC; ITN

Exhibit 2b

The coverage overlap between the networks, Visnews and CNN is substantial

INTERNATIONAL NEWS COVERAGE OVERLAP

	NBC	CBS	ABC	VISNEWS	CNN	BBC	ITN
London	√	√	√	√	√		
Paris	√	√	√	√			
Germany	√	√	√		√		
Rome	√	√	√	√	√		
Moscow	√	√	√		√	√	√
Tel Aviv/Jerusalem	√	√	√	√ (2)	√		√
Cairo	√	√	√	√	√		
Beirut	√	√	√	√ (2)			
Amman	√		√				
Cyprus				√		√	
Johannesburg	√	√	√	√		√	√
Nairobi				√	√		
Tokyo	√	√	√	√	√		
Hong Kong	√	√	√	√		√	√
Seoul	√						
Bangkok		√	√	√			
Manila	√	√	√				
Beijing		√	√				
Nicaragua	√	√		√	√		
Mexico City	√						
San Salvador		√	√	√			
Buenos Aires				√			
Rio de Janero				√			
Santiago				√			
Washington						√	√
	16	16	16	19	9	5	5

Source: NBC News; CNN; BBC; ITN

All three US news network lost in the order of $100m in 1987.

4. **De-regulation in France**

As can be seen from Exhibit 3 France has 6 television channels at present and has de-regulated in the 1980s. A2 and FR3 are public sector (and public service) channels. It is interesting that with de-regulation of the existing system and the growth of new channels, the traditional public service channels have put much greater emphasis on news. In fact both channels have doubled the time devoted to news since de-regulation.

The Problems Facing ITN

Given the trends in world news, the de-regulation of ITV and the likely response of BBC, the position ITN will face is roughly as follows:

1. A substantial growth in news programmes in the UK, but with greater emphasis on the regional element and an increasing use of feature stories as part of the news.

2. The growth of new companies producing news programmes.

3. Under the present proposals the absence of an alternative national network news within the commercial sector.

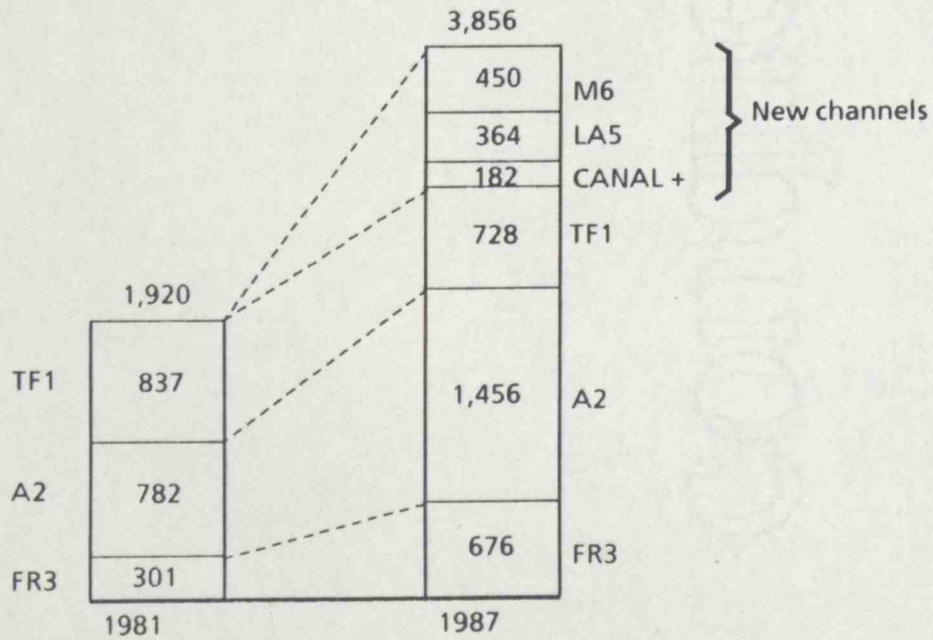
4. The persistence of high costs due to

   (a) the need for international bureaus which are expensive.

Exhibit 3

The growth has resulted from the advent of new channels and a higher news coverage on existing channels; French TV's allocation of airtime to news programmes has doubled in the last 6 years

TOTAL NUMBER OF HOURS/YEAR ALLOCATED TO NEWS BY FRENCH TV



Source: McKinsey analysis

(b) the advent of satellite technology.

(c) at present ITN receives via Visnews and WTN free international pictures from ABC and CBS: both of these are running at a loss and therefore may well have to introduce charges or reduce the scale of their operations in future.

5. On the basis of French evidence it is likely that the BBC will wish to differentiate their product from ITV post de-regulation and therefore put greater resources into news: this would also be used by them to justify their public service contribution through licence fee funding.

All of this suggests ITN are right to be concerned about a bleak future.

Conclusion

If there is to be an alternative national news network to the BBC at the quality rather than the tabloid level of television news, the ITC will have to lay down some minimum requirement for all ITV channels regarding news coverage. This will require a franchise covering the network of Channel 3 and possibly Channel 4.

Recommendation

It is important in the White Paper that we set out various options regarding the future of news. Because of the curious nature of this market (publicly funded BBC and an uncertain future for its rival) we may not be able to rely on a market solution: it will supply result in the dominance of the BBC.

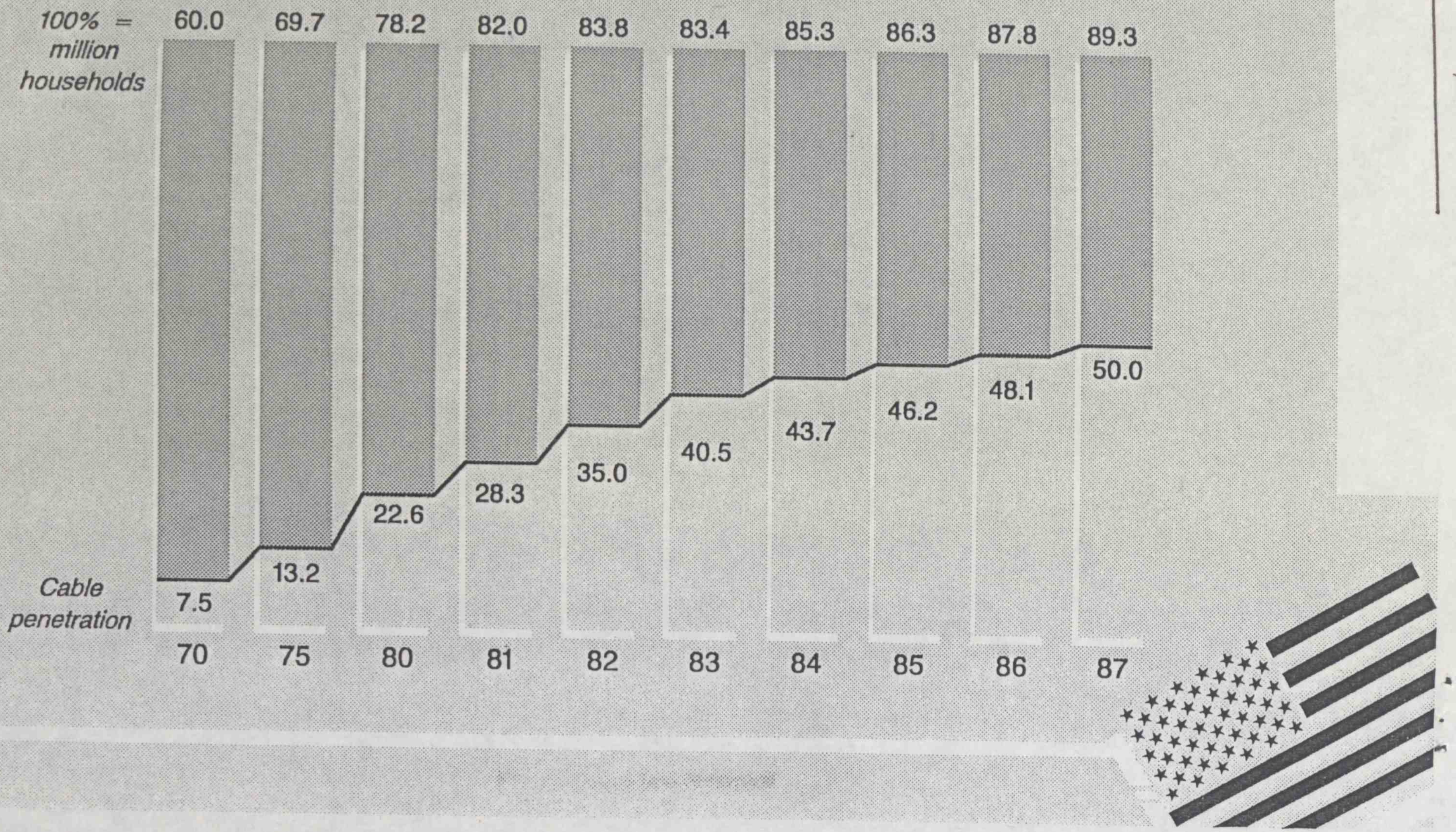
Brian Griffiths

BRIAN GRIFFITHS

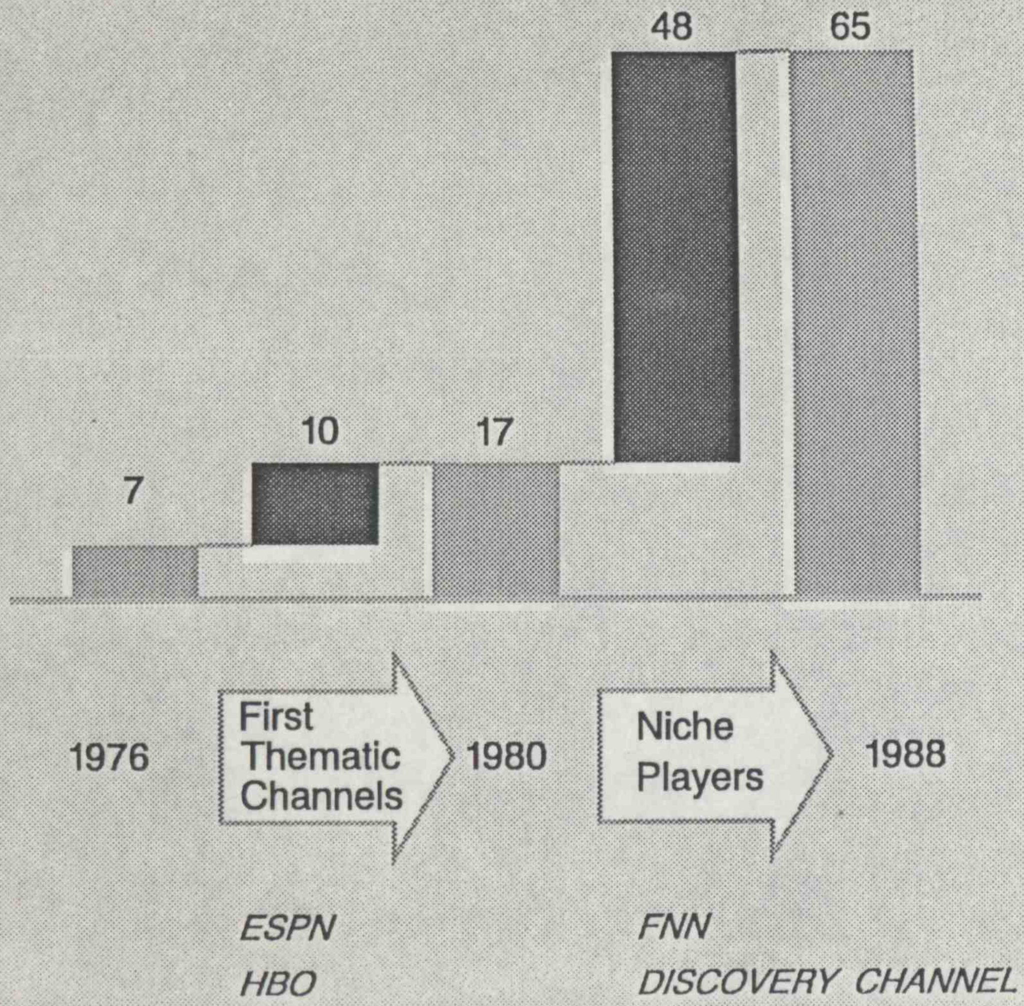
Appendix I

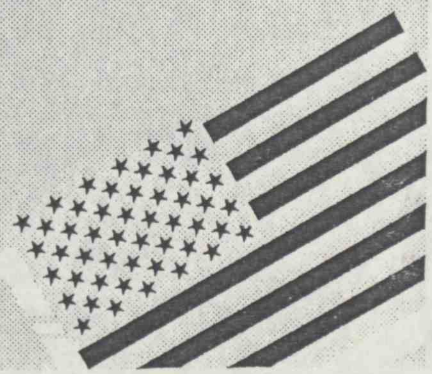
PENETRATION OF CABLE IN THE US

1970 – 1987

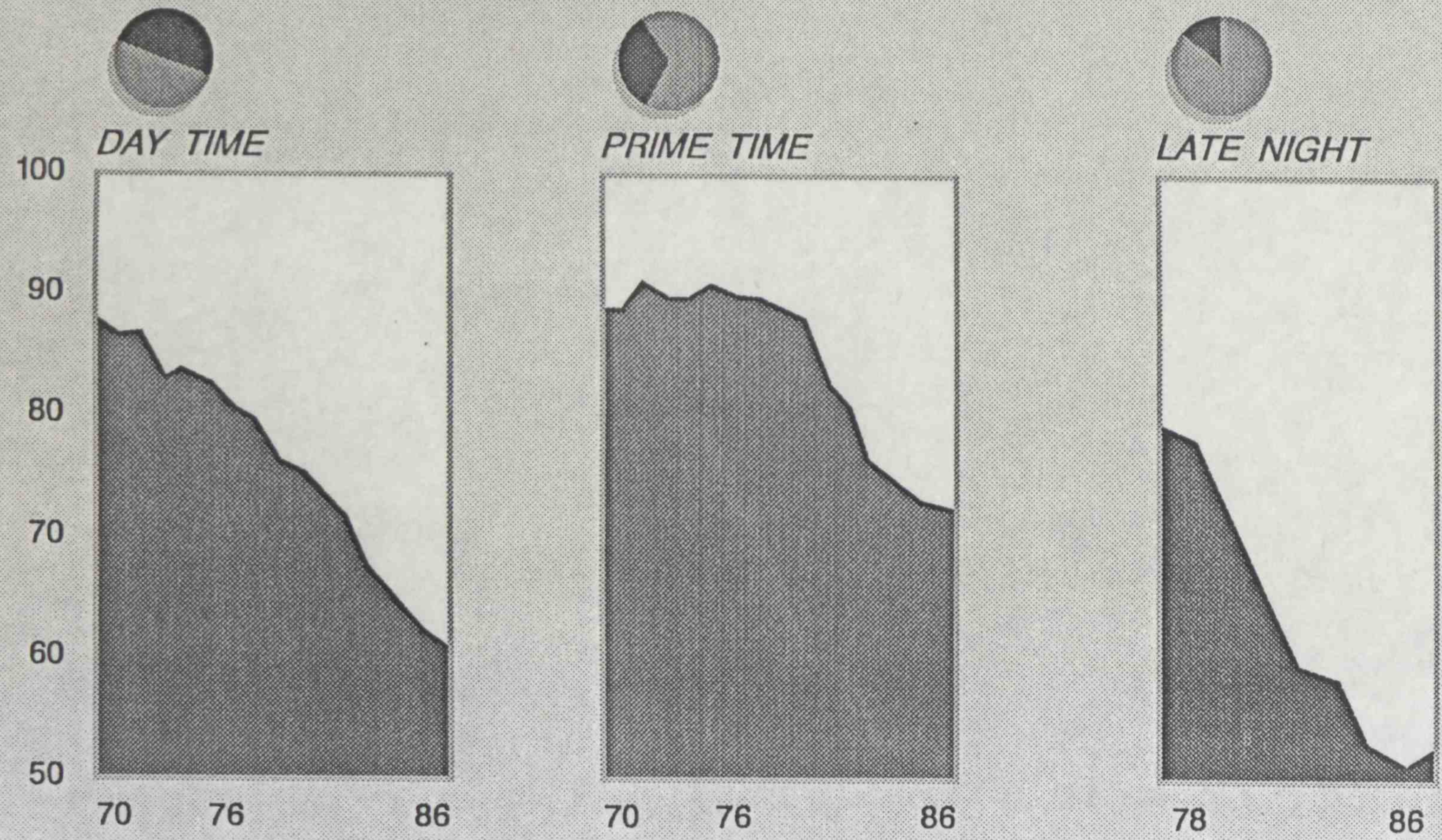


GROWTH IN NUMBER OF CHANNELS – US





3 NETWORK SHARE



3 US NETWORKS' PERFORMANCE