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From the Private Secretary

28 September, 1988.

SUBJECT CC MASTER

Dear Philip,

BROADCASTING WHITE PAPER

The Prime Minister held a meeting with the Home Secretary yesterday to consider his minute and draft White Paper of 14 September, and the subsequent adjustments that had been canvassed in correspondence. Professor Griffiths and Anthony Langdon (Cabinet Office) were also present.

I should be grateful if you and copy recipients of this letter would ensure that it is seen only by those who have an essential need to do so.

The Prime Minister said that it was most important that the changes being proposed in the broadcasting environment should not have the unintentional effect of bolstering the position of the BBC. The BBC enjoyed a unique privilege in the licence fee, and if it retained its possession of massive amounts of air time and transmission facilities there was a risk that its position would be enhanced in the new environment. She therefore welcomed the Home Secretary's agreement that the BBC's use of television night hours should be restricted to only one channel - as MISC 128 had originally decided. The introduction of subscription on that channel should be the beginning of a metamorphosis that would eventually overtake the licence fee.

On news provision the Prime Minister said that it was essential that there should be a strong countervailing force to ensure that the BBC did not provide the only effective news broadcasting. She therefore welcomed the Home Secretary's suggestion, in recent correspondence, that the ITC should have responsibility to ensure the provision of a high quality news service on Channel 3 and powers to ensure its exposure during peak viewing times. It should be made clear that these provisions included both national and international news.

The meeting then considered the statutory and financial framework that would be appropriate for the Channel 3 news service. The Home Secretary pointed out that his proposal

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for arrangements to ensure that there was at least one body effectively equipped and financed to provide news on Channel 3 was closely modelled on the present provisions in Section 22 of the Broadcasting Act 1981: the continuance of this statutory framework would, he believed, go a long way to underpin the position of ITN, but he considered that anything that smacked of a specific guarantee would cause problems of both handling and presentation. In discussion it was agreed that the model proposed by the Home Secretary, under which the Channel 3 companies would not be able to detach themselves from the jointly owned body, was the appropriate one in the circumstances. It was not clear, however, that Channel 3 contractors should be entitled to a majority shareholding in the jointly owned body; there would in fact be advantage if they held only a minority, and the majority of the shares were held externally, by bodies without licences on any television channel. The Home Secretary agreed to reflect this in his revisions to the draft White Paper.

On transmission the Home Secretary explained that the BBC's Charter ran until 1996. The long-term aim should be to separate both the ITC and BBC from responsibility for transmission, but it would not be possible to do this completely until after that date. It seemed clear that there was a need for a body to plan and co-ordinate the transmission of non-BBC services, and that the ITC would be in the best position to discharge that function. He agreed with inter-departmental official advice that the best course at the present time was to leave the ownership of the transmission facilities with the BBC and ITC, but to ensure that they both contracted-out their operations to the greatest possible extent. He believed that the BBC would co-operate with that approach.

The Prime Minister commented that, while she noted that the existence of the BBC Charter was a relevant factor, there were objectionable aspects to either the ITC or the BBC owning transmission facilities. The ITC would be essentially a regulatory body that need have no direct involvement in transmission and the BBC, by virtue of its uniquely privileged subvention, was inherently likely to pose a threat of unfair competition. She was especially concerned that new entrants to the transmission business should get a fair deal, and she would wish MISC 128 to consider this point very carefully. When the proposals were discussed in MISC 128 she would expect the Home Secretary to explain, in particular, why it was not possible to divest ownership of transmission facilities from the BBC and the ITC.

The Home Secretary said that MISC 128 had agreed that Channel 4 should maintain its existing remit, and he believed that a firm guarantee on this point was absolutely crucial for the acceptance of the White Paper package. While he supported the agreement that Channel 4 should sell its own advertising, he believed that a profit-making Channel 4 would inevitably be forced to sacrifice quality and that this manifest risk would be difficult to handle

politically. He therefore believed that it was necessary to think further about the financing of Channel 4. The model he now proposed was that Channel 4 should operate as a non-profit-making body, and that if it was unable to discharge its remit from its own advertising revenue, the ITC should have power to raise subscriptions from other independent television companies to meet the shortfall. The meeting should bear in mind that Channel 4's remit included an education function on which the Education Secretary might well wish to comment.

In discussion the point was made that enabling Channel 4 to turn for help to the other television companies if it ran into difficulties would be a built-in encouragement for inefficiency and extravagance. It was also relevant that, under the present proposals, Channel 4 would have a greater guarantee of continuity than would its Channel 3 rivals, which would have to compete for their licences every 8 years. It would be a healthy discipline to require Channel 4 to live within its advertising income, and if it could not manage its affairs on that basis it might sell the operation to another organisation that could make a success of it. Channel 4 broadcasting might, in fact, represent simply one activity of an organisation that had other interests.

Summing up this part of the discussion, the Prime Minister said that, while it was clear that Channel 4 must preserve its existing remit and sell its own advertising, there were a number of other considerations pulling in different directions. The White Paper should therefore canvass a range of options on Channel 4. The meeting agreed, however, that paragraph 18 of the draft White Paper was right to indicate that licences for Channel 3 should be for a maximum of 8 years, though the Government would be willing to consider other views before preparing legislation.

The meeting then considered the Home Secretary's suggestions for a possible third force in UK broadcasting. The Home Secretary explained that there might be real fear of a gradual but inexorable decline in quality broadcasting over the years, with expensive but culturally important items slowly dropping away. The suggestion of a transparent subsidy for specific projects, which would ultimately be paid for by the taxpayer, was designed to offer a guarantee against this. It had the advantage of being closely modelled on a recommendation of the Peacock Report. The Prime Minister, however, commented that it would not be possible to explain the creation of a new public subsidy in a White Paper that was setting out plans for the withdrawal of subsidies. This was an unacceptable approach. Broadcasters who wished to promote expensive cultural productions should look instead to commercial sponsors, who were often attracted by such projects.

The meeting had a brief discussion of trans-frontier broadcasting. The Prime Minister informed the Home Secretary of her meeting with the Prime Minister of

Luxembourg (recorded separately), and it was noted that the attempt to use the Council of Europe draft convention on satellite broadcasting standards to restrict the timing of television advertisements had its roots in German newspaper interests.

Summing up the meeting, the Prime Minister said that the way was now clear for the White Paper, revised as agreed, to be brought forward for discussion in MISC 128, and subsequent submission to the Cabinet, after the Conservative Party Conference. I am writing separately, on a wider circulation, about the Prime Minister's reactions to the present draft.

I am sending copies of this letter only to Brian Griffiths, Anthony Langdon and Trevor Woolley.

Yan,
Pd

Paul Gray

Philip Mawer, Esq.,
Home Office.