

*cc PA*
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 The Rt. Hon. Lord Young of Graffham  
 Secretary of State for Trade and Industry

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**BROADCASTING WHITE PAPER**

Thank you for sending me a copy of your minute of 4 October to the Prime Minister. I have also seen her Private Secretary's letter of 10 October and Nigel Lawson's letter of 6 October.

As the draft passage for the White Paper says, the new outline proposals for news on Channel 3 will need further study and consultation. Given its guaranteed funding and market, the proposed Channel 3 news organisation will obviously be well placed to compete on advantageous terms with any would-be new entrant, and it will be important when working up the detail to guard against the risk of an effective duopoly developing in the supply of TV news.

It is also important that the new organisation should be subject to strong pressure to maintain efficiency. To this end I would see advantage in seeking to secure a majority of external shareholders from the outset.

I remain unhappy with your proposal to give the BBC an entirely free hand to decide what kind of services to offer by subscription in the night hours. It seems right in principle that in the longer term the BBC should work with the same opportunities and constraints - in terms of the kind of services which may be offered in the night hours - as the

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other terrestrial operators, subject to the requirement in the BBC's case to use the night hours to develop subscription. But in the short term, while the BBC is in a position to use subscription in advance of its terrestrial competitors, we need to be particularly careful about what we authorise to avoid any risk of market distortion and BBC dominance.

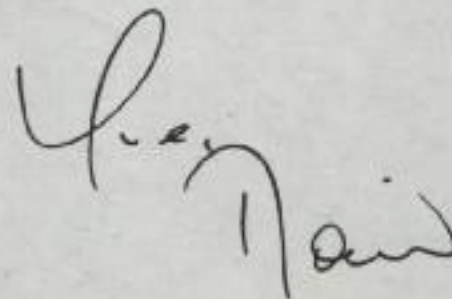
I would also repeat the point which seems to me to be crucial. Specialised business services will not accustom viewers at large to paying directly for services received from the BBC; yet that is the hurdle to be overcome if our objective of replacing the licence fee with subscription is to be attained.

I find the revised White Paper paragraph on the BBC's role in transmission a little confusing. I welcome your proposal that the BBC should if necessary be required to contract out the operation of its transmission network; but if the work is to be contracted out, does it make sense to talk any more of the BBC offering transmission services to potential new entrants to the broadcasting market?

I am also disappointed at your conclusions on ownership of the transmission infrastructure. As I argued in my letter of 4 October, much the best solution would be for the BBC to agree to give up their transmission rights in advance of 1996, thus giving us the opportunity to make sensible arrangements now to privatise the infrastructure as well as its operation. I still believe it would be worth exploring the possibility with the BBC; the more so as, if the operation and maintenance are to be contracted out, the case for holding on to the assets alone must be somewhat diminished.

I recognise that we might not want to float this possibility explicitly in the White Paper, but at all events the passage on ownership of the transmission system should be couched in open terms, to leave us the flexibility to pursue privatisation now if the BBC did after all turn out to be more amenable than anticipated.

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



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