

to Bup

PRIME MINISTER

19 October 1988

MISC 128: BROADCASTING WHITE PAPER

The agenda for tomorrow's meeting is messy, as so much paper has been circulated since the summer.

The first draft of the White Paper led to a number of issues being raised by yourself, the Home Secretary and Lord Young. Following meetings and correspondence, the following are the major outstanding issues which need to be settled tomorrow:

The Major Issues

1 Cable and local services

This section of the White Paper is complicated. Unlike most other parts it has immediate significance for cable companies. It proposes a very specific new set of arrangements which some companies are bound to see as too restrictive; all existing cable companies will have to change their operations at the end of the existing franchise and some may elect to do so sooner.

Our record in setting a framework for cable is not good. Cable has not grown in the UK as rapidly as it might. Indeed until recently it languished.

It would be a tragedy if we were to introduce a new framework which discouraged cable in the future.

Recommendation

- a. the need to listen to the industry and potential

investment is more critical in this field than in many others,

b. uncertainty is bad for the industry: accept Lord Young's suggestion that the government settle the matter two months after the end of the consultation period.

## 2 Transmission System

The Home Secretary has moved from his initial position. He is now prepared to require the BBC and the IBA to contract out their operations to the private sector.

This is a useful step.

As the provision of transmission is a natural commercial activity, it would be far better, if transmission were separated from the broadcasting authorities (BBC and IBA), owned by private companies and rented by broadcasters.

It is however unwise to force the BBC to divest itself of its transmitters, as this raises the terms on which the Charter is renewed in 1996. Nevertheless two further steps are feasible:

a. the BBC could be encouraged either to sell transmitters or else establish joint ventures with private companies,

b. the IBA/ITC could certainly be required to sell off their transmitters.

Unless step (b) is taken, we run the risk that the cosy duopoly of transmission will effectively remain and that if the BBC and the IBA/ITC act in their self-interest, they could well use their control of transmission to make life

more difficult for potential competition.

### Recommendation

Accept the Home Secretary's suggestion regarding contracting out as the minimum change. Urge the Home Secretary to explore further measures to break up the duopoly.

### 3 Fixed or Open-Ended Licences

David Young and Jeffrey Stirling both argue strongly that there is no commercial logic in granting licences for a fixed time period such as 8 years in a new system in which the shares of TV companies are freely traded and in which takeovers are permitted.

a. Fixed-term licences are necessary and important in a monopoly or duopoly situation as this gives the government necessary control over the possible abuse of power by ITV companies; but in an increasingly competitive situation, in which companies are subject to takeover such control is unnecessary,

b. under a fixed term licence the government/ITC will have very little control over the franchise holder when it is known that the franchise is not to be renewed.

c. eight or even ten years is not an attractive time horizon on which to set up a business with a substantial capital investment; if it is to be for a fixed term, it needs to be twelve to fifteen years,

d. the Home Secretary's objection regarding the possible need to redraw boundaries of ITV companies can be met by granting such powers to the ITC,

e. to the extent that the ITV companies generate

excessive profits, that can be recovered by the levy: if this is set properly there is no reason the Treasury should lose.

The alternative to a fixed licence would be an open-ended franchise period but subject to periodic review by the ITC to ensure that the terms of the franchise were being met.

#### 4 ITN and C3 News

The Home Secretary has moved to your position. The only remaining question is whether the new company has a majority of outside shareholders from the outset. This is certainly perfectly feasible. The case for it is that it would give ITN or the new company greater freedom and probably greater revenue. At the very least it might be canvassed as an option in the White Paper.

The Chancellor is almost certain to object to the new proposal on the grounds that it is unnecessarily restrictive of competition. This is the classic text-book response of economics. If we pursued it however we should have no guarantee that there would be:

- a. a national network news to rival the BBC, or
- b. a high quality international news to match the BBC.

We would be more likely to end up with four or five different news programmes of indifferent quality shown by various companies but distinctly inferior to the BBC.

In any case more popular news will almost certainly be provided by BSB, Astra etc.

### Recommendation

The possibility of the C3 News Company having an outside majority shareholding from the start should be included in the White Paper.

### 5 Subscription and the Night Hours

The only outstanding issue here is whether the Home Secretary should direct the BBC on the way it uses its night hours. Central to this is whether the BBC are really serious about moving to subscription. I suspect they are not and that Lord Young is therefore right to nudge them to capture a mass audience rather than sell time to specialist services.

### Recommendation

Encourage the BBC to go for a mass audience through subscription.

### 6 Channel 4

Apart from including in the White paper the options already discussed, it is important that the idea of a "third force" which links C4 and C5 is included in the White Paper.

The advantage of a "third force" is that it will increase competition significantly. If C4 remains linked to C3, then we shall end up with a continuation of two large broadcasting blocks (BBC and C4 linked to C3 which will be a smaller number of merged ITV companies) with newer companies on the periphery (C5, BSB, Murdoch etc).

If however we separate C3 and link C4 to C5 we provide real competition for BBC and C3 from the start of the new system and also ensure that C3 is less competition for the newcomers.

Recommendation

While the future of C4 cannot be decided in the White Paper, it is important that all the options are set out impartially.

Yvonne Bank

PP

BRIAN GRIFFITHS