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PRIME MINISTER

MISC 128: IMPLEMENTING THE BROADCASTING WHITE PAPER

BACKGROUND

You have agreed to chair a series of further meetings of MISC 128, starting on 20 April. Their main purpose will be to consider whether we should develop or modify any of the proposals in our Broadcasting White Paper in the light of the comments on it. We have received over 3,000 responses. A selective summary of the major points made by some of the key interests is at Annex A. The White Paper has prompted a wide-ranging debate. This has itself been helpful in making broadcasters face up to what a more competitive future will mean for them.

2. The purpose of this minute is to set the scene for our consideration of specific topics. I envisage that these will include:

the future funding and structure of Channel 4;

the quality threshold, competitive tender and the levy;

ownership;

the night hours;

transmission; and

the regime for locally delivered cable/MVDS services (on which we are committed to an announcement by the end of April).

I will be circulating proposals on these subjects separately. I thought you might like to have this scene-setting minute before you meet the Chairman of the Home Affairs Committee on 4 April: briefing has been provided separately for that meeting.

### Increased Competition

3. The White Paper emphasised that broadcasting was changing fast, and that technology was opening up the prospect of much wider competition and choice. That remains true. But the advent of the Sky transmissions from the Astra satellite has vividly brought home to many people the reality of a potentially dramatic expansion of broadcasting. In the coming months the public will be presented with a massive advertising campaign by BSB in the run up to its launch in September.

4. Extra competition and choice are therefore now more tangible than when we published the White Paper. They are also prospectively more extensive. The IBA have now advertised the United Kingdom's fourth and fifth DBS channels. There are plans for a second Astra satellite, opening up the prospect that up to 32 satellite television channels will be receivable on a single dish. There are also plans for further Eutelsat satellites, delivering up to a further 42 channels from different orbital positions. Under our proposals services which do not use UK broadcasting frequencies will be allowed to develop freely (although if they have an uplink from the UK they will be brought under direct consumer protection controls on matters such as taste and decency). Poll evidence suggests that the prospect of wider choice through new satellite channels is popular with viewers. As one would expect, there are varying predictions about how far these ventures will succeed, and how much they will eat into the audience share of the terrestrial broadcasters. A number of the satellite channels will be subscription-funded. A number will be thematic channels targeted at particular interests. There has also been a recent upsurge of interest in cable.

5. Some of the existing players have become more anxious as the scale and reality of the prospective competition have become clearer. Existing broadcasting interests have naturally sought to rally support. Several senior backbenchers and peers have been vocal on their behalf. Lord Buxton's attack in the Lords and in correspondence on the form of competitive tender proposed in the White Paper is an example. Some interests have also argued that the cumulative effect of all the changes proposed for ITV in the White Paper - competitive tendering requiring the highest bidder to be selected in the second stage, a revenue levy, separation of Channel 4 from ITV, removal of the night hours from Channel 3 and Channel 5, possible changes in the Channel 3 map, moving the transmission system into the private sector - will be too destabilising at a time of rapid change and increased competition for advertising revenue.) The advertisers and the independent producers, while acknowledging that much of the White Paper is good news for them, share the worries about the effect of some of these proposals in their present form.

6. We must expect interests such as the ITV companies to seek to defend their positions, although it is also clear from their individual responses, and the ITVA's, that they have come a long way in accepting the need to be more efficient in a much more competitive broadcasting environment. The MMC investigation has also shown that the wind of change has been blowing through the ITV system in recent months.

#### Need for Flexibility on Detail of Proposals

7. The overall response to the White Paper should not lead us to abandon its main pillars. But there are some areas where there are sound reasons for us to be ready to look again at the detail of the proposals in the White Paper. The main considerations are these:

##### (a) Implications of Increased Competition

8. Competition under the new regime now seems likely to be much more acute than it did when the Peacock Report, and to a lesser extent the White Paper itself, were written. Technical opportunities for new services have been around for some time. The significant point to have emerged sharply over the past few months is the depth of the pockets, and the determination,

of the new players - News International, W H Smith, Bond, Pearson, Maxwell among them - who are taking up these opportunities. The fact that there will be even more outlets for new players than previously envisaged suggests that we might look again at some of the more heavily criticised proposals in the White Paper for creating such outlets, such as the proposed separate night hours licences for Channel 3 and Channel 5. Doubts have been expressed by City analysts about their viability in such a competitive environment.

#### (b) Quality

9. The biggest single theme of the debate has been the need to promote high programme quality and extra choice which is real, not bogus. This was the dominant message in the debates in both the Commons and the Lords. It is also the chief concern of the letters we are receiving from individual viewers and listeners. The emphasis which we are now putting in our general political philosophy on the quality of life will also encourage the concern with quality in broadcasting. Your recent speech to the Central Council at Scarborough is a case in point. This points to a need to look carefully at the adequacy of the safeguards proposed in the White Paper for quality programming on Channel 3 and Channel 5, and at how Channel 4's remit can most effectively be safeguarded. I remain persuaded that some form of competitive tender will be a marked improvement over present franchise allocation arrangements. But we need to look hard at the interaction of quality tests and realistic and soundly based financial bids in the competitive tender process. The simple "highest bidder must win" variant proposed in the White Paper can easily be presented as providing an economic disincentive to quality, and has found no committed supporters among those commenting. It has also been criticised in a widely noticed response from six members of the Peacock Committee.

#### (c) Home Affairs Committee

10. John Wheeler's Home Affairs Committee has emerged as a significant voice in the debate. They have supported much of the White Paper, which in turn reflected a good deal of their report published last June. But they have, as you know, sharply criticised the proposal to take away one set of

the BBC's night hours as being inconsistent with our wish to nudge the BBC towards subscription and to reduce reliance on the licence fee. Many independent responses to the White Paper have echoed this point. The Committee have also concluded, as a result of their latest study, that the Channel 4 remit - the pivotal quality safeguard for the independent sector - cannot be effectively guaranteed except along the lines proposed in the second option in paragraph 6.25 in the White Paper.

(d) Bill Handling

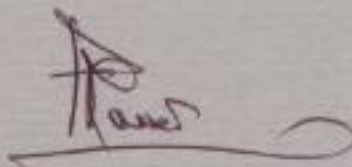
11. We now need to consider seriously the handling of the Bill. It will be long (perhaps 200 clauses) and controversial. We will have to show that we have taken some account of comments on the White Paper in implementing its detail in legislation if we are not to face severe problems in both the Commons and the Lords. The White Paper has already set off some potentially formidable campaigns on behalf of particular interests such as Gaelic broadcasters; religious, children's, arts and social action programmes; and supporters of BBC network radio. There is also a wider campaign, which we are seeking to counter, about the implications of the White Paper proposals for broadcasting in Scotland. Mr Renton will answer a debate at the Party Conference in Scotland in May.

12. There is a strong view, not only in Scotland but also in the South-West and North-East of England, that the existing number of franchises should not be disturbed for the first <sup>few</sup> ~~four~~ years of the new regime; any reduction in the number of franchises will certainly be very politically sensitive. Tactically, we will need some room for manoeuvre in responding to such campaigns, and more general concerns about quality and the management of change, without conceding points inimical to the White Paper's basic philosophy. We also need, I believe, to show some movement on local cable/MVDS franchises, where our proposals have been much misunderstood and criticised by cable interests, and on ownership, where many, while welcoming our desire to maintain diversity of broadcasting ownership, would like to see still tighter and more extensive restrictions.

**CONCLUSION**

The White Paper proposals have emerged from the consultation process in good shape overall. There are valid reasons for looking again at some of the detail. In this we are, I think, helped by a comprehensive response from the IBA which clearly shows the beneficial influence of the new Chairman, George Russell, which stresses objectives entirely consistent with those of the White Paper, and which incorporates much fresh, and in some cases independent, thinking on specific points.

13. I am copying this minute to MISC 128 colleagues and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be 'Hans', with a long, sweeping underline that extends to the right.

APPROVED BY THE HOME SECRETARY  
AND SIGNED IN HIS ABSENCE

28.3.1989.

## BROADCASTING WHITE PAPER: KEY RESPONSES

## IBA

Welcomes proposed framework for expansion of commercially funded broadcasting. Must be structured so that more choice does not mean less quality.

2. Advantage in retaining present Channel 3 regions post-1992. Welcomes proposal that ITC should decide this.

3. A network on Channel 3 is essential and ITC should have power to require one.

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4. Channel 4's remit best sustained if it becomes a non-profit making subsidiary of the ITC, selling its advertising separately, but with a revenue safeguard based on a set percentage of terrestrial net advertising revenue (NAR).

5. Proposes tendering arrangements based on clearly specified quality requirements, a fixed licence payment set with City advice, a variable bid expressed as a percentage of NAR, and quality of money assessments based on soundness of business plans.

6. Recommends three year moratorium on hostile takeovers.

7. More competitive transmission system desirable. IBA's and BBC's national transmission operations should be privatised separately.

## ITV ASSOCIATION

Welcomes White Paper in giving positive lead to the development of television in the next decade.

2. Questions "highest bidder wins" element in competitive tender proposals. Offers four preferable options for tendering, all of which offer ITC some discretion to choose between competing bids having regard to quality and avoid lump sum bids.
3. With bids in the form of annual payments, levy should be abolished.
4. Current complementary relationship between Channel 3 and Channel 4 should be retained.
5. Channel 3 regional franchisees should be allowed to retain their night hours.
6. Three year moratorium on hostile takeovers.

## BBC

Welcomes White Paper and especially confirmation of its special role.

2. BBC will supplement licence fee by selling programmes, providing data services and building on subscription experiment. Subscription proposals include a skills initiative geared to 1992 and a BBC nature club.
3. In order to build up subscription and retain scheduling control to provide valued overnight services such as election, sports and musical event coverage, BBC wishes to retain control of both channels during night hours.
4. BBC will continue to increase efficiency and reduce overheads.
5. Next licence fee decisions (for April 1991) should be based on independent assessments of income achievable from subscription.



## SIX MEMBERS OF PEACOCK COMMITTEE

Essential that ITC should have discretion not to accept highest bid in competitive tender.

2. Premature reduction in licence fee will have damaging effects on BBC TV and radio. BBC must have adequate funding beyond 1991.
3. Government should legislate to make peritelevision sockets mandatory.

## INCORPORATED SOCIETY OF BRITISH ADVERTISERS (ISBA)

A revenue levy after 1993 would constitute a tax on advertising and should be withdrawn.

2. Advertisers would regret it if the high cost of acquiring a Channel 3 franchise discouraged licensees from providing a high quality service.
3. Channel 4 should become a private sector company keeping its existing programme remit.
4. Channel 5 should be launched before 1993 and should be divided not daytime/night time but weekday/weekend.

## INDEPENDENT PROGRAMME PRODUCERS' ASSOCIATION (IPPA)

If the BBC is to develop new programme services and subscription it should retain both sets of night hours.

2. Monitoring of implementation of the 25% independent productions target should be entrusted to an independent evaluator.
3. The Channel 3/Channel 4 link should be severed. Channel 4 cannot make its way unassisted in the market place. It should become an independent trust with a guaranteed budget.

4. Channel 5 should have its headquarters outside London.
5. The Government should help the formation of a national network of training organisations.

#### DELOITTE, HASKINS AND SELLS

ITC should select contender who offers cost-effective programming at the highest standard, even if he is not the highest bidder.

2. Quality hurdle for Channel 3 should be higher.
  3. Proposed delivery/retailing distinction for local services should be abandoned.
  4. Separate regional Channel 3 night hours licences unlikely to be viable.
  5. Channel 5 should not be split up by hours of day.
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#### CAMPAIGN FOR QUALITY TV

Positive programme requirements should be expanded to include high quality current affairs, arts, religious, drama, documentary and children's programmes, and a network system.

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2. ITC should consider applicants' financial commitment to programme proposals, as well as financial bids.
3. Channel 4 remit needs to be supported by continuing cross-promotion and complementary scheduling.

## CARLTON COMMUNICATIONS

National newspaper interests in Channel 3 should be restricted.

2. Tender bids should take form of percentage of NAR. If ITC not satisfied about financial viability of business plan of highest bidder, should award licence to alternative applicant.
3. Channel 5 should not be split up by time.
4. Does not favour any moratorium on takeovers.
5. ITC should make known its decisions on Channel 3/Channel 5 clock and map as early as possible.

BROADCASTING: MARR PT 7.

