

20 June 1989

PRIVATISATION OF THE TRANSMISSION SYSTEM

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This subject is best tackled by examining the Home Secretary's 10 conclusions (a) to (f) in para 9 of his minute.

(a) Objective: to privatise transmission

Privatisation will bring benefits of increased choice and greater efficiency - at present the Price Waterhouse Report (PWR) suggests that the transmission of both BBC and IBA assets are managed badly.

Recommendation

Agree to privatise transmission.

(b) Privatisation in present form

The PW Report considered three ways in which the transmission system might be privatised: the present system with two independently operated and maintained systems (ie the IBA would form one company and the BBC another), a number of local monopolies which could be grouped together, or the grouping together of local monopolies on a regional basis which would provide yardstick competition (comparative judgements could be made about different regional operations). The Report rules out the regional option on technical grounds, though it is far from clear that this Report is on solid ground in doing this.

The official group (MISC 129) recommends in favour of privatising the two transmission operations in their present form for a number of reasons, the major one being that it would avoid the cost of changing the system, and that it would mean the IBA operation could be privatised separately from the BBC.

Recommendation

Agree to proceed with privatisation in present form but commit to review the arrangement as part of the review of the telecommunications duopoly

(c) OFTEL as regulator

After privatisation there will be a duopoly of the core areas of broadcasting transmission and therefore there will need to be economic as well as technical regulation. The natural candidate is OFTEL.

Recommendation

Agree to OFTEL as the regulator, part-privatisation.

(e-h) BBC and privatisation of the transmissions

Recommendations (e-h) need to be considered together.

The BBC is opposed to the privatisation of its transmission system. It has over 51 main transmission sites and 800 in all. These are clearly valuable. It would be virtually impossible to get planning permission for some of them if they were being set up today. If the BBC have to sell its transmission system today, the estimated price which is mentioned would be between £300-500m.

The BBC view their transmission system as a valuable asset with which they can defend themselves against the uncertainty of government policy. They believe that if they retain their transmission system it will rise in value for two reasons:

- (i) through attracting new transmission business for C5 and the three new national radio networks.
- (ii) by entering into joint ventures with companies such as Mercury and Marconi in the field of telecommunications.

They would hope to be able to undertake the first of these fairly soon: the second would depend on being awarded a telecommunications licence after the review of the existing telecommunications duopoly.

The result of what the BBC want therefore, far from being a step in the direction of privatisation, is a step in precisely the opposite direction. They will be trading in the private ^{sector} in order to build up the value of public sector assets! This is back door nationalisation and what is even more staggering the Home Office are set to go along with all of it.

Before we examine the points in detail it is worth setting out the options facing the BBC on transmission. They are:

- (i) status quo
- (ii) wholly owned and operated subsidiary

- (iii) wholly owned subsidiary but with operations contracted out
- (iv) wholly owned subsidiary with new business (transmission plus telecommunication)
- (v) privatisation.

(e) Objective - privatise the BBC's transmission system but no attempt to progress against their will

Certainly state that the objective is to privatise the BBC's transmission system by 1996.

The added recommendation not to attempt progress against their will is much more questionable.

One option considered by the official paper is to provide some incentive to the BBC - such as a share of the proceeds of privatisation. It is argued in the paper that it is unlikely that any share of the proceeds which could be realistically offered would lead them to change their mind on privatisation.

Because the other alternatives are so unattractive this point needs to be explored in much more depth. For example, it is not clear that the BBC would turn down the following if it were to be offered:

- (i) share of the proceeds of privatisation;
- (ii) prohibition on a wholly-owned subsidiary seeking new transmission and telecommunication business - which is de facto nationalisation;

- (iii) possible minority stake (say 15%) in new transmission company - which was then free to obtain new business.

Recommendation

Accept the objective of privatising the BBC by 1996 but reject the recommendation of taking no further steps to help privatise at the same time IBA assets are privatised.

- (f&g) Endorse BBC proposal to establish their transmission operation as an arms-length subsidiary and compete for new broadcasting transmission business

Establishing an arms-length subsidiary is an internal matter for the BBC. If they wish to do this in the interests of internal efficiency, then it is a useful step forward.

There are two problems with allowing them the right to compete for new business - (i) it is back-door nationalisation and (ii) it is not easy to see how it could be restructured so that it did not offer unfair competition. The problem is how the BBC would price transmission services in order to earn a reasonable rate of return on capital. Because there is no competitive yardstick for transmission prices, it is not possible to value the assets other than in an arbitrary way. The BBC could if they so chose compete at a price below the successor company to the IBA and it would be virtually impossible on any objective grounds to declare it as unfair competition.

- (h) Cautious but not negative response to BBC joint-venturer on telecommunications

This is the very opposite of privatisation.

Recommendation

Strongly resist any suggestion that the BBC should become a telecommunications operator.

- (i) Transmission charges for C3 should be based on a national tariff related to proportion of TV households in any given franchise area

This issue arises because of the way in which the ITV map is currently drawn. In a free market transmission charges for certain areas (Grampian, HTV, Channel) would be so high that it could result in negative tenders. To avoid this result more densely populated areas will have to subsidise sparsely populated areas. One proposal is for transmission charges to be averaged out per household and included in the operators costs on that basis.

Any alternative arrangement is likely to prove very contentious.

Recommendation

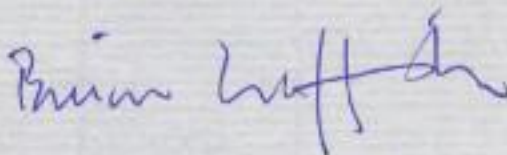
Accept as proposed.

CONCLUSION


As we have found with their attitude to the 25% independent production quota and the night hours, the BBC can be relied on to promote their own interests with a vengeance. Transmission is proving no exception. The present Home Office proposals reflect faithfully what is in the BBC's, but not necessarily the public interest.

Not only have they objected to privatisation but they propose capitalising on public sector assets and effectively expanding the public sector through joint-ventures.

Transmission is a far more important issue than night hours. If a concession must be made at the meeting, then it should be made on the latter but not the former.

A handwritten signature in blue ink, appearing to read 'Brian Griffiths', with a stylized flourish at the end.

BRIAN GRIFFITHS

A short, horizontal handwritten line in blue ink.