

A cedje



Prime Minister

Brian Griffiths c/o QUEEN ANNE'S GATE LONDON SW1H 9AT

it is sensible to proceed as at X Sale, substantially
the possible financial costs set
out are less. Contact?

27 July 1989

I am reluctant
to privatise at the
earliest date in
the circumstances

Dear Nicholas,

Reeb
28/7

PRIVATISATION OF THE BROADCASTING TRANSMISSION SYSTEM

We announced on 4 July our basic decisions about the future of the broadcasting transmission system. To enable the necessary legislation to be prepared we now need to decide upon the timing of the privatisation of the IBA's system.

The earliest date at which it would be legally possible to privatise the IBA's system would be January 1991, when the Authority will be abolished. MISC 129 noted, however, that it might not be practicable to privatise the system until the expiry of the ITV contracts at the beginning of 1993. My officials have explored this point with the IBA.

The IBA's contracts with the ITV companies for the 1990-92 period oblige the IBA to provide transmission facilities on specified terms and conditions. The ITC will inherit these obligations. If the transmission system is privatised before January 1993 it would have to discharge these obligations by sub-contracting transmission to the new private transmission operator. It would be able to do so lawfully provided that the level and standard of service provided by the private operator was at least as good as that specified in the contracts with the ITV companies. It should be possible for the ITC to ensure that this is the case by means of appropriate conditions in its contract with the private transmission operator. There should therefore be no contractual impediment to privatisation during the currency of the ITV contracts.

X (Having taken the decision to privatise, we should do so at the earliest practicable date. I therefore propose that we should aim to privatise the IBA's system in January 1991, or as soon as possible thereafter. It would not, however, be sensible to give a public commitment at this stage to January 1991 as the date for privatisation. Further discussions will be needed with the IBA about the practicalities of privatisation before a firm date can be set.

The Rt Hon Nicholas Ridley, MP.
Secretary of State for Trade & Industry

/over....



Privatisation before 1993 may depress the proceeds of the sale somewhat, for two reasons. First, the charges which a private transmission operator could charge before January 1993 will be fixed by the terms already set down in the ITV contracts. Price Waterhouse advised us that a private operator would have to cut costs by reducing staffing levels by around 25% if they were to earn an acceptable return on his investment at the present level of charges. The IBA themselves have a reduction programme which aims to cut staffing levels by 15-20%, but it will not be completed by January 1991. A private sector owner buying the system at that point would therefore inherit staffing levels which would make it difficult for him to trade as profitably as normal commercial criteria would dictate. If the new owner reduced staffing levels further he would, of course, have to bear the redundancy costs. These considerations are likely to affect the size of the bids made for the system. Secondly, Price Waterhouse advised in their report that the attractiveness of the system to investors would be affected by the outcome of the telecommunications duopoly policy review. Any liberalisation of the policy could help the transmission operator reduce costs (by enabling him to provide his own distribution circuits, which at the moment have to be leased from BT) and generate new sources of revenue (by enabling him to move into non-broadcasting business). Anyone who bought the system in January 1991 would do so in ignorance of the outcome of the duopoly policy review, whereas the position might well have become clearer by late 1992. I do not consider that these two factors are a sufficient reason to delay privatisation; but colleagues should nevertheless be aware of the possible consequences of early privatisation on the proceeds of the sale.

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

Yours,
D. G. H.