



the department for Enterprise

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TV LICENSING ORGANISATION: NEW BUSINESS

We agreed in November last year to extend the Post Office's powers to enable its television licensing organisation (TVL) to provide subscription management services on a contractual basis for satellite and other broadcasting organisations. Since then TVL has been pursuing the prospects for business with all the satellite broadcasters. However, it appears that for the most part they regard subscriber management as a key aspect of their marketing strategy and prefer to keep closer control of it. Although both Sky Television and British Satellite Broadcasting (BSB) had initially shown interest in TVL's services, Sky has now decided to undertake its own subscriber management and BSB has gone to one of its major shareholders, Next.

TV Direct remains interested in using TVL's services. It is at present discussing with TVL the possibility of a six year contract. TV Direct will, however, require that TVL makes the initial investment in developing the necessary software (at a cost of about £3.5m) over the first three years of the contract. That investment will then be repaid in full over the remaining three years. The Post Office has sought confirmation that we would be content with such an arrangement. The details remain to be negotiated but the agreement as proposed (as annex) seems to me to be essentially within the guidelines we had laid down. The Post Office has assured me that the necessary funds for the software development can be found from within TVL and that the investment is expected to secure an adequate payback within the contract period.





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As Tony Newton said in his letter of 3 November to John Major, we consider TVL would be a very good candidate for privatization if its commercial future can be assured. However, before it can be sold it must reduce its dependence on its present business and sole client, the Home Office. Subscriber management services offer the best prospect of new business which fits in well with TVL's present activities. However, it is now clear that such business will not be easy to attract and I am convinced that an arrangement on the lines proposed is necessary if TVL is to have any prospect of securing a contract from TV Direct. If it does not secure TV Direct's business, there are unlikely to be any further opportunities in this area in the near future.

TV Direct is pressing for an indication as soon as possible of the acceptability in principle of the proposed arrangement. Should you see difficulties in what is proposed, I should be grateful to know by midday 5 September. Otherwise I intend to tell the Post Office that we can accept contractual arrangements on the lines proposed, as a necessary step towards future privatization of TVL.

I am copying this letter to the Prime Minister, Douglas Hurd, E(A) members and Sir Robin Butler.

ERIC FORTH



ANNEX

OUTLINE OF PROPOSED CONTRACT BETWEEN TVL AND TV DIRECT

Contract to be for six years.

TVL to undertake software development for the subscriber management system.

TVL to fund software development in years one to three.

TV Direct to repay to TVL cost of software development plus interest and profit in years four to six.

TVL to own software initially with joint ownership at a later stage.

TVL to undertake the subscriber management operation - on a cost recovery basis initially but on a fully commercial basis from 28 February 1991, ie six months after encryption.

TV Direct to provide hardware and undertake all marketing.