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COMMERCIAL IN CONFIDENCE

26 July 1990

*de Peter*

FUTURE OF IBA EXPERIMENTAL AND DEVELOPMENT (E & D) DEPARTMENT

Thank you for your letter of 6 July as Financial Secretary. I am replying also to Nicholas Ridley's letter of 9 July. *ATE with A?*

We share the concern, expressed in Nicholas Ridley's letter, that over-optimistic assumptions should not be made about E & D's business prospects. Against that concern, however, must be weighed others:

- (i) the need to maximise the sale price of the new transmission company;
- (ii) the need to preserve the skills base of the company for future ventures;
- (iii) the need to give the emerging management of the new company a firm basis upon which to plan as soon as possible.

None of the courses of action open to us is risk-free. If we take too pessimistic a view of the new company's potential

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E & D business, the sale price may suffer and the company will lose potentially lucrative contracts and staff with valuable skills. On the other hand, we must avoid loading the new company with E & D overheads which cannot be supported by contracts.

We and Price Waterhouse have reviewed the E & D business plan in the light of Nicholas Ridley's and your concerns; and we have reviewed the assumptions in consultation with Transcom management.

#### ITC funded research

We accept that an increasing proportion of ITC research contracts is likely to go to companies or organisations other than Transcom, as the ITC puts new projects out to competitive tender. (The IBA fully accepts that the ITC will be expected to do this.) The business plan reflects this. However, as your letter of 6 July recognises, the programme planned for 1991 and 1992 consists of on-going projects which could not be placed elsewhere without considerable disruption.

Your letter referred to two projects in particular: enhancements to PAL; and additional uses of the UHF spectrum. Both projects flow from the ITC's statutory duties under Clause 64 of the Bill. In the case of the PAL research (which is proceeding in tandem with privately funded research) a delay would hamper the development of the use of the VBI for additional services under the Bill. The UHF research is concerned with finding a way, through the use of digital techniques, to fit additional television channels into the UHF spectrum currently used for the four terrestrial channels. If successful, this research would open up interesting new options for us (ie the possible introduction of several new near-universal channels), which would further our general broadcasting policy objectives, as well as being conducive to efficient spectrum management. I think that it is very unlikely that this important project would be funded by the private sector: any commercial spin-off would be long term; contingent upon subsequent Government policy decisions (and, probably, primary legislation); and would not necessarily accrue to those who had funded the research.

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