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Dear Paul

NOT necessary

CORRESPONDENCE ON CHANNEL 5

Thank you for your letters of 23 February, 26 February and 4 March, enclosing a number of letters from businessmen about the start date of Channel 5. You asked for a short note on the policy point at issue, before Home Office Ministers replied to these letters.

The White Paper envisaged that Channel 5 would come on stream from the beginning of 1993. The Broadcasting Bill is framed in such a way as to enable this to happen; and DTI plan to have secured international agreement for the use of the frequencies by then. However, the installation of a transmission system is clearly a pre-condition for the launch of the service. The IBA expect that the Channel 5 licence will be awarded by around March 1992. They estimate that, if preparations on the installation of a transmission system are not made in advance of that date, Channel 5 will not come on air until late 1993, and will not reach its full 70% coverage until the end of 1994 or early 1995.

They therefore proposed that they should be authorised to start advance preparations now, by installing aerials at five main transmitting stations. The cost of these aerials would, they estimate, be about £1.3 million (out of a total system cost of £17.5-£20 million). This cost would be met out of public funds initially, but would subsequently be reimbursed by the Channel 5 licensee. The IBA projected that this might enable Channel 5 to come on air in early 1993 and reach full coverage by early 1994.

Ministers considered this proposition carefully, but rejected it for two reasons:

- (a) it would give the IBA's privatised successor an inside track in the competition to provide transmission facilities for Channel 5. Although Channel 5 will, for frequency planning reasons, need to be transmitted from existing IBA (and BBC) sites, it does not follow that only the IBA's successor would be able to provide a full transmission service. Other new entrants could do so by using IBA and BBC sites (to which, under the regulatory arrangements we are making, the IBA and the BBC would be obliged to give them access). But if the Government were to authorise an advance

investment by the IBA in aeriels this would give the privatised company a clear advantage over any competitors. In practice, the scope for competition would have been closed off. As Channel 5 is the only major area where there is scope for competition in television transmission, except in the longer term (when the BBC's system is privatised), this would seriously dent the overall transmission policy;

- (b) as the transmission system will crucially affect the Channel 5 licensee's business he should have freedom to determine its nature. But under the IBA's proposal he would inherit from them certain major investment decisions. For instance, it would lock him into five transmission sites, for four of which alternatives would be available.

Ministers thought that these objections outweighed any short-term benefits of bringing forward the likely launch of Channel 5. In reaching that view they took account of the wide range of other new services which will be operating by 1993 (Sky, BSB, other satellite channels, and some cable-only channels); and of the fact that, whatever arrangements were made for transmission, there could be no guarantee that Channel 5 would be ready to launch by early 1993.

Finally, Ministers do not accept that the launch date will necessarily be as delayed as the IBA suggest. As the Prime Minister will recall, the aim is to privatise the IBA's transmission system by mid-1991. Channel 5 will be one of the main potential growth areas for the new company; and the purchasers may well decide to maximise their chances of winning the contract by making advance preparations on the installation of aeriels. This could bring forward the launch date by around six months.

I am copying this letter to Ben Sloccock (DTI).

Yours sincerely
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