

PRIME MINISTER

19 March 1990

BROADCASTING: CROSS-OWNERSHIP RESTRICTIONS

We need to keep four principles to the fore in thinking about restrictions on cross-ownership:

- (a) the rules should be as simple as possible;
- (b) they should be designed to create as much competition and to stimulate as much commercial activity as possible (because of changing technology there is great potential here);
- (c) they should limit to the minimum the ITC's involvement in this area;
- (d) their key concern should always be the interests of the viewer.

The meeting on Tuesday raises two issues.

- (i) Cross-Ownership Restrictions on Satellite Television not Using UK Frequencies (ie non-DBS)

At present the Bill proposes two restrictions in this area:

- no operator of a non-DBS satellite service receivable in the UK (eg Sky) can have more than 20% interest in a DBS or terrestrial broadcasting service;
- no national newspaper proprietor can have more than a 20% interest in a DBS or terrestrial broadcasting service.

These proposals would mean that W H Smith (which own two nonDBS channels and 21% of Yorkshire TV) would be forced either to reduce



CONFIDENTIAL

their interest in Yorkshire to 20% or sell the other channels. This would not be onerous. But I suspect that W H Smith have much greater ambitions for the future and would expect to win a franchise at the auctions for either C3 or C5. This rule would then prove onerous to them.

The Home Secretary's argument against changing the present terms of the Bill is that to disturb for present arrangements could open the door for unwelcome pressure to change in the wrong direction. In other words, back benchers in the Commons or the Lords might try and force Murdoch to divest himself of Sky.

In view of the tiny share which Sky has in the UK television market at present, and also in view of the enormous stimulus which it provides to deregulation of the British television industry, this would be most unwelcome.

If you believe that proposing a change to the rule would open up these larger issues and that the government might be defeated by so doing, it is clearly not worth proceeding.

But Nicholas Ridley has already set up an inquiry into cross-ownership in the media. Before even discussing any change in the rules for companies such as Sky, it is important for the government to consider the report.

Meanwhile if the changes proposed to solve the problems facing W H Smith were seen to be fair, it is not clear that our own supporters would be provoked need be provoked into action.

The particular recommendation made by Nicholas Ridley is not to abandon the 20% rule, but to allow the holder of a terrestrial franchise to own a few but not many non-DBS satellite channels eg say two non-DBS channels and either Channel 5 or two Channel 3 franchises.

CONFIDENTIAL



CONFIDENTIAL

This could easily be defended as in the public interest it increases choice and service - yet without any undue restriction of competition.

Recommendation

The Home Secretary's position is unduly cautious. In view of (a) the existing inquiry into cross-media ownership and (b) the limited nature of the Ridley proposal, the latter should be accepted.

(ii) Local Newspapers & Local Radio and Television

The issue here is whether a newspaper should be allowed to own a broadcasting (radio or TV) station in its own area, providing competition already exists. Under existing proposals it cannot.

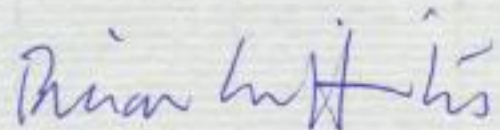
The key test in this area must be the extent of competition. If a particular change in ownership will not adversely affect the extent of competition in an area adversely, there is no reason for ownership rules to be over-restrictive.

The appropriate bodies to decide on the extent of competition are the OPT and MMC - not the ITC.

Recommendation

The ownership rules for local radio and TV stations should be liberalised to include ownership by local newspapers, providing this does not adversely affect competition in the area as a whole.

---



BRIAN GRIFFITHS

CONFIDENTIAL