



QUEEN ANNE'S GATE LONDON SW1H 9AT

10 September 1986

Dear Secretary of State

EXTENDING ITV CONTRACTS

Thank you for your letter of 19 August about my proposal to limit new ITV contracts to two years. As you know, the Prime Minister has since agreed that I should seek the agreement of QL ~~to the inclusion of this proposal in the planned Bill on extension of the contract period for direct broadcasting by satellite.~~

I accept that limiting ITV contracts to two years may have some effect in inhibiting new investment, but since the companies will no doubt be looking for new contracts at the end of the two year period, I doubt that they will wish to allow their programme standards to fall. Still less will they take any steps which would lead to a reduction in their advertising revenue. As you know, there is an outstanding commitment to review the financing of the special case of S4C, to which the Peacock Committee's recommendation that the Fourth Channel should become independent of ITV for funding is obviously relevant.

Turning to your suggestion that we consider, as an alternative, new contracts in excess of two years but with provision for a break clause, I am not sure that this would necessarily be an improvement. Any provision for a break clause is bound to lead to uncertainty, and this would be no less likely to inhibit investment than my proposal. Moreover, if the break clause was not activated - and the IBA have given me no indication that they would wish to activate it - the companies would probably have a shorter period in which to make up any lost ground than would be offered by a new contract under whatever contractual system we decide should apply.

In the circumstances, I hope that you will agree that we should proceed as originally proposed. I am copying this letter to the recipients of our earlier correspondence.

Yours sincerely
William Pitt

Approved by the Secretary of State
and signed in his absence

Broadcasting: BBC Franciney PTS

