

K01740

PRIME MINISTER

## SEMINAR ON BROADCASTING

You are separately receiving detailed briefing that Mr Norgrove has commissioned from the Home Office and DTI on the five topics into which the seminar will be divided. But you may also find it useful to have this general note summarising where we have got to in processing Peacock, what is currently envisaged for a Bill next Session, and how far decisions will be required over the next few months, especially on the emerging issue of MMDS (Multipoint, Multi-channel Distribution System).

Background: work to date

2. Following discussion in MISC 128 the Government has announced the decision to peg the licence fee to RPI, and has published a Green Paper on Radio, proposing the removal of two frequencies from the BBC on lines developed from Peacock. MISC 128 has also reached decisions in principle on auctioning ITV contracts and reconstructing the levy, and the details are being worked up by officials prior to MISC 128 having another look at these points. The Home Secretary's proposal on Channel 4 was that it might be set up as a separate broadcasting authority, but you wanted a wider range of options to be examined, and officials are doing that.

3. The Government has accepted the target of 25 per cent of original material on BBC and ITV to be provided by independent producers. Whether that needs to be embodied in legislation partly depends on the success of the Home Secretary's negotiations. The position on fair terms of trade with independent producers is similar.

4. The whole question of subscription financing is currently out to consultation on the basis of the CPSI report, on which comments are requested by the end of this month.

5. You are familiar with the Home Secretary's latest proposals on oversight of programme standards.

#### Contents of a Bill

6. As things stand now, the essential core of a Bill would be the provisions to enable the ITV franchises running from January 1993 to be auctioned, and a new levy applied to them. That legislation needs to be in place very well before 1993 to enable the successful bidders to set up their organisations. In addition, it would be very desirable to legislate on radio, on which a comprehensive policy has been announced in the Green Paper. And you will want the watchdog body on programme standards to be on the statute book at the first opportunity.

7. Also, the legislation should almost certainly establish at least the framework to enable the BBC to provide subscription services. But that depends on what is decided on the following points.

#### Spectrum scarcity: MMDS etc

8. The brief that DTI have prepared for you on 'delivery of additional programme services' is the clearest summary of the important technical points that we have yet seen. Nevertheless, you may wish to consider whether it would be useful to commission a presentation before an early MISC 128 meeting.

9. Very crudely, the technical argument is largely about the use of ever higher-frequency parts of the spectrum. Terrestrial TV transmission has moved up from VHF to UHF frequencies, and the frequencies now being canvassed for MMDS are far higher yet again.

New equipment would have to be developed to exploit succeeding tranches of the spectrum for MMDS. But, on the face of it, the technology offers 20-30 channels, with another 30 plus to come in time. The range would, however, be limited and consumers would need to be in line of sight of the transmitters.

10. But the strategy on which the Government decided before the Cable and Broadcasting Act 1984 was that new television services should be restricted to DBS and to cable (which, it was hoped, would develop on an entertainment-led basis to provide great benefits in terms of communications infrastructure). Peacock simply accepted this scenario, and was naturally attracted by cable in particular because of the virtually infinite number of channels potentially offered by fibre optic. Cable is extremely expensive to lay, however, and it has become increasingly clear since Peacock reported that, for the time being at least, the cable industry is becalmed.

11. In the last few weeks, two things have surfaced alongside each other.

- (i) The published CPSI report on subscription canvassed the possibilities for extra television channels that might be financed in that way, and suggested that a fifth channel could be squeezed in either on the UHF or VHF bands. This was the source of the recent speculation in the media that the Government intended to provide a fifth channel on UHF.
- (ii) In the light of the latest information about developments in industry (especially in BT) the DTI brought forward their estimate of the timescale within which MMDS equipment might begin being commercially available to 3-5 years.

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The assessment now of the official group, MISC 129, is that if Ministers decided to press ahead with the provision of further channels as a top priority, then MMDS represents a better route than VHF (which has numerous obvious disadvantages) or UHF (where a fifth channel would not achieve national coverage and would disrupt existing users).

12. The rate at which this kind of technological development becomes commercially significant is almost certainly determined not so much by purely scientific or research barriers as by the money that is invested (reflecting a variety of decisions by Government and industry) and by the accessibility and convenience to users. For as long as the Government clearly maintained the policy of deliberately protecting DBS and cable from competition, MMDS may not be likely to attract the money to develop quickly. And - like DBS, other satellite transmission, cable and VHF - MMDS would require the consumer to get new equipment. On the other hand, a form of MMDS seems to be established in the USA, and this will doubtless attract more attention.

13. MMDS is clearly an extremely important potential new (or, at least, newly reported) factor in broadcasting policy. It would, however, be most unsafe, on present information, to put a timescale on its practical significance. The DTI figure of 3-5 years is simply a judgement of the earliest starting point, assuming favourable decisions all along the route. (Similarly optimistic predictions were made for cable). In any event, it is accepted by departments that a decision to enable and encourage MMDS would definitely kill cable once and for all, and might have adverse effects on DBS, depending on assumptions. In the case of cable, you would need to balance the broadcasting competition arguments for MMDS against the telecommunications policy arguments for protecting cable, and the processed results of the consultants' study that has been commissioned on communications infrastructure are not likely to be ready to come to E(TP) until next Easter.

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Conclusions

14. An assessment of the importance of MMDS depends at least as much on assumptions about future Government decisions as on purely technical factors. Since Ministers have not yet addressed any of these questions, it would be unsafe to be drawn beyond fairly general comment about MMDS at the seminar.

15. Immediately after the seminar, however, MISC 128 will urgently need to make a sound assessment of the possible new scenario of competitive broadcasting opened up by MMDS, the timescale attached to it, and the key decision points on the route. A paper on these issues has been commissioned from the official group for consideration at MISC 128 on 29 September. You will not wish MISC 128 to settle the final scope of the next Broadcasting Bill until this review is complete (though it could well turn out that the MMDS prospects are realistically so far ahead that they do not call into question anything that MISC 128 has settled so far).

A/L

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15 September 1987