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CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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See Letter

MISC 128: CHANNELS 3, 4 AND 5

My Secretary of State has seen the exchange of correspondence about the use of cash bonds which currently rests with your letter of 19 June to Paul Gray. *FILG WITH PG*

Like the Prime Minister, he has considerable doubts about the Chancellor's proposal that the cash bonds of unsuccessful applicants should be used to contribute towards the setting up costs of Channel 5. There seems little justification in obliging unsuccessful applicants to subsidise the winner of the Channel 5 franchise. A non-returnable deposit could also act as a barrier to entry to Channel 3, particularly since it would effectively be subsidising a Channel 5 competitor. Furthermore, I understand that the IBA have done some work which suggests that we can expect positive tenders for Channel 5 even if all the start-up costs are assigned to the franchise.

The problem, incidentally, relates to the current use of Channel 36 (not 35 and 37) by VCRs and home computers, which may suffer adjacent channel interference from the new service on Channels 35 and 37.

The problem will already be known to those interested in Channel 5. The White Paper highlighted the potential difficulties over retuning and made it clear that the Channel 5 franchise would be obliged to meet the costs related to using Channels 35 and 37.

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No one is questioning the fact that the Home Secretary's statement did not say that the cash bonds would be returned. We are not, therefore, in a position of having to make an early announcement. Nonetheless, my Secretary of State hopes that, once officials have been able to assess more precisely the extent of the problem, colleagues will be able to consider more definite proposals on Channel 5.

Yours

Gareth Jones

PP GARETH JONES
Private Secretary

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