

WBLM

3/7/89

ex/lu

dti

the department for Enterprise

Rec'd
3/7

The attached was omitted in error from Lord Young's letter of today's date to the Home Secretary.

The letter was entitled: Transmission and Night Hours.

I apologise for any inconvenience caused.

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

the
Enterprise
initiative

APS/SOS

215 5425

888-517



the department for Enterprise

AMENDMENT TO FINAL PARAGRAPH OF HOME SECRETARY'S ANNOUNCEMENT

The private transmission company which takes over the IBA's transmission operation will have a powerful market position and the transmission market is likely to be dominated by a small number of major players for the foreseeable future. We therefore consider that economic as well as technical regulation will be necessary. We propose to amend the Telecommunications Act 1984 to enable this regulation to be market operates fairly, and also that the coverage, quality and reliability of transmission systems are maintained.



PB1BNB

010

dti

the department for Enterprise

CONFIDENTIAL

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

The Rt Hon Douglas Hurd CBE MP
Secretary of State for the
Home Department
Queen Anne's Gate
London SW1H 9AT

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

MBM

REC
S/L

Direct line 215 5422
Our ref NP5ABY
Your ref
Date 3 July 1989

Dear Secretary of State,

TRANSMISSION AND NIGHT HOURS

WITH Pa

You asked for comments on the draft announcements on transmission and BBC night hours attached to your minute of 29 June to the Prime Minister.

The announcement on night hours seems accurately to reflect our decisions at MISC 128 and I have no comments on it.

On transmission charges for regional Channel 3 franchisees, the Financial Secretary's proposal has some immediate attractions in using the market mechanism to determine prices and in allowing the franchisees to negotiate individually. I have some doubts, however, about how it would work in practice. For the initial round of Channel 3 franchises it would be unlikely to produce any competition to the privatised IBA transmission company and OFTEL may have to become deeply involved to ensure no abuse of monopoly position. In any event I am not clear that the marginal cost of transmission could be properly identified.

Given that we have collectively recognised the need for some mitigation of transmission costs for the smaller, more rural, franchisees, I favour your proposal of a national tariff based on NAR plus any other subscription and sponsorship revenue. It is transparent and market related and can be adapted to any particular Channel 3 "map". We must ensure, however, that Channel 3 companies and others are not allowed to become locked into one transmission system for so long that, even

the
Enterprise
initiative

when the BBC transmission is privatised in 1997 there is no real competition.

As regards engineering and R&D, I would not wish to see any announcement made on transmission which did not include them. We have recognised that they are an integral part of the current transmission activities of the IBA and it would be wrong not to make clear our decisions in regard to them at the same time. Colleagues seem generally content with the paper I circulated with my letter of 16 June. Your letter of 27 June expressed concern over the exact way in which the privatisation of the IBA's Experiment and Development Department (E&D) was achieved.

Whilst I can understand your concern that we should do all we reasonably can to ensure a smooth transition for the Department, I do see problems with your approach. Under your proposals the E&D Department is likely to remain a subsidiary of the ITC until at least 1 January 1993 with no great incentive to change the status quo, secure in the knowledge that the ITC could require franchisees to continue to subsidise its activities for a further, albeit limited, period. This is hardly consistent with the role we see for the ITC. Nor does an obligation on major ITC franchisees fit in with the general tenor of "the light touch". It could be expected to reduce the value of the franchises. I fear that your suggestion will only put back for four years the inevitable need for the Department to stand on its own feet.

Having said that, I am sympathetic to your concern over the risk of what might be seen as a failed privatisation. This is also the reservation of Norman Lamont who otherwise endorsed my proposals. I would therefore be content not to refer specifically to the aim of privatisation for the E&D Department, whilst making clear that we want it to become more market oriented and confirming that the ITC will not have its own R&D facility. I attach a form of words to be included in your draft Arranged Question.

I have two other small suggested amendments to your announcement. The third paragraph appears to close the door firmly on the privatisation of the BBC's transmission system until 1997. This assumes that the BBC will not want to change its mind irrespective of any developments either in the market or as a result of our future policies, notably in respect of the telecommunications duopoly. This may indeed prove to be the case but I do not think we should give the BBC the impression that the Government would not support an earlier move to privatisation. May I suggest that you add at the end




the department for Enterprise

of the third sentence of that paragraph the phrase "unless they wish to divest themselves of those responsibilities earlier."

Finally, the last paragraph seems to imply that only the company which takes over the IBA's transmission operation will be subject to regulation by OFTEL. I think there is a strong case for BBC transmission to be subject to some form of regulation as well. It will be important for OFTEL to be able to use the BBC as a yardstick in looking at the private sector company's charges. Your minute flags up the fact that some of the new broadcasting business will have to be transmitted from BBC masts and we need to ensure that this may be subject to the necessary scrutiny. For OFTEL to be able to regulate the BBC's transmission will help prepare them for the regime after 1996 and will underline our commitment to privatisation. Finally, I think it would give completely the wrong impression to say that we were subjecting the private sector transmission company to regulation while the public sector one would be largely free to do as it chose. I attach an amended form of words for the present draft of the final paragraph.

I am copying this letter to the Prime Minister, other members of MISC 128 and to Sir Robin Butler.

Yours sincerely,


(Approved by the Secretary of State and signed in his absence)

ENGINEERING AND R&D: CONTRIBUTION TO DRAFT ARRANGED PQ
ON PRIVATISATION OF THE TRANSMISSION SYSTEM

Consistent with its role as a licensing body, the ITC will not require an engineering department of the size currently needed by the IBA. Most of the staff in the present department are involved in operating and maintaining the transmission system which, as I have announced, will be privatised. The ITC's statutory duties will, however, require it to have access to technical advice and we have therefore decided that it should be able to retain a small core of engineering staff, of perhaps up to ten professionals, depending on its precise responsibilities, budget and priorities.

The ITC will also be given the power to commission research and development work directly relevant to its own responsibilities and it will be required to promote R&D by industry into new broadcasting techniques. It will not have its own R&D facility. We believe that broadcasting R&D should be commissioned directly by those with an interest in it, including future ITC franchisees, programme makers and transmission companies, in order to ensure its commercial relevance. We should, however, like to see the private sector take on greater responsibility for R&D in this area and to build on the expertise of the IBA's Experiment and Development Department. I shall therefore be asking the IBA to ensure that the Development develops an outside customer base as quickly as is consistent with its present responsibilities so that it is properly prepared to compete independently for R&D contracts once the IBA ceases to exist.

AM. 9

10

10 3 10

