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QUEEN ANNE'S GATE LONDON SW1H 9AT

4 July 1989

Dear David,

TRANSMISSION AND NIGHT HOURS

Thank you for your letter of 3 July with your comments on the draft announcements on transmission and BBC night hours.

I am grateful for your agreement to my proposals on transmission charges for Channel 3. I also have no difficulty with your suggested drafting amendment on paragraph 3 of the transmission announcement.

I have no objection to the amendment you propose for the final paragraph, since I accept that the provision by the BBC of ancillary services, such as mast space, to other transmission operators should be permitted on condition that it is subject to economic regulation by OFTEL. But I do not believe it would be sensible to apply OFTEL regulation to the BBC's provision of transmission services to itself, since this raises no competition issues. On that understanding I am content to incorporate your amendment.

I understand your desire to include in the announcement our proposals for the future of IBA R and D. I have, however, seen John Fairclough's letter to you of 3 July supporting my proposal for some degree of interim protection for the existing R and D capacity until 1994. In the circumstances, I think we shall need a few more days to reach a final conclusion on this, and I therefore propose to leave the R and D position to a separate announcement which I hope we can make soon.

I am also grateful to Nigel Lawson for his letter of 3 July and general endorsement of the two announcements. I am content with his proposal to refer at the end of the fourth paragraph to a review of the arrangements for the transmission tariff, but I

/would prefer not

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

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would prefer not to include the word "initially" in the previous sentence, since I believe that this will give rise to unnecessary uncertainty which may well affect the tender price achieved.

I understand that the Prime Minister was generally content with the form of the two announcements, but has suggested the omission of the sixth sentence in paragraph 3 of the transmission announcement, a proposal with which I am entirely content.

... I am now therefore circulating with this letter the final version of the announcement on transmission which will be made today. I am copying this letter to the Prime Minister, other Members of MISC 128 and to Sir Robin Butler.

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NB Letter also copied to Sir Geoffrey Howe

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Tuesday, 4th July, 1989

Written No. 149

Mr David Nicholson (Taunton): To ask the Secretary of State for the Home Department if he will make a statement about the privatisation of the terrestrial broadcasting transmission system in the light of the Price Waterhouse report.

MR DOUGLAS HURD

In the White Paper on Broadcasting we stated that our objective was to move the terrestrial transmission system progressively into the private sector. The Price Waterhouse report analysed the various ways in which this could be achieved. In the light of that report, we confirm that our intention is to privatise the transmission networks owned and operated by the BBC and the IBA as soon as we are in a position to do so. We believe that a move into the private sector will reinforce the pressures for efficiency, and will enable more intensive use to be made of the valuable transmission infrastructure.

We have considered carefully the different possible options for the structure of a privatised transmission industry. On balance we have decided that the best approach would be to set up two national transmission companies based on the present BBC and IBA transmission networks, rather than to restructure the system in the way proposed in the Price Waterhouse report.

The BBC's transmission responsibilities are rooted in their Royal Charter which lasts until the end of 1996. They have indicated that they do not wish to have these responsibilities transferred to a private transmission operator. We have therefore decided that the BBC should retain their transmission responsibilities, including for the World Service, until the expiry of the Charter. The position will be reviewed at that point with a view to privatisation. In the meantime the BBC will be confined to transmitting their own services, and will not be permitted to compete for the transmission of new broadcasting or telecommunications services unless they wish to divest themselves of those responsibilities earlier. We are concerned that the private transmission market should develop in a fair manner; and, while the BBC's transmission operation remains in the public sector, there would be insuperable difficulties in ensuring that the BBC entered this market in a way which would be perceived to be fair to their competitors.

The IBA have welcomed the proposal that their transmission operation should be privatised, and we will be including the necessary provisions in our legislative proposals on broadcasting. We shall be considering further the timescale for privatisation, bearing in mind the possible implications for the ITV contracts. We have taken note of the wide regional variations in the cost of transmission, and of the possible consequences of these variations for the smaller Channel 3 companies. We propose that there should be a uniform tariff for Channel 3 companies based on their share of the total Channel 3 income, taking account of any subscription and sponsorship revenue as well as net advertising revenue. This arrangement would be reviewed following decisions to be taken on the future of the BBC transmission system after 1996.

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 carried out by the Director General of Telecommunications. This regulatory framework will be designed to ensure that the transmission market operates fairly, and also that the coverage, quality and reliability of transmission systems is maintained.

BROADCASTING : BBC Finances
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