PART 5

MT

CONFIDENTIAL FILING

Direct Broadcasting by Satellite Cable Systems and their effect on Broadcasting Policy

BROADCASTING

Part 1: March 1980

Part 5: May 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
New cover							
~~28.1.86~~							
~~12.2.86~~							
26.2.86							
Part 5 ends.							

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Dd 8398366 2M 11/83 JET

PART 5 ends:-

MS/HO to LPC 26.2.86

PART 6 begins:-

SS/Scotland to Home Sec 6.3.86

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CF pp please.

CCBG

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

MBPM

26 February 1986

Dear Willie,

DIRECT BROADCASTING BY SATELLITE

You will recall that, following the collapse last summer of the plans to establish a direct broadcasting by satellite service run jointly by the BBC, the ITV companies and other private companies, we asked the Independent Broadcasting Authority to carry out a review of the likely commercial interest that remained in establishing DBS in the United Kingdom. The IBA reported to me last month that they believed there was sufficient commercial interest to justify our bringing into force the relevant provisions of the Cable and Broadcasting Act 1984 which establishes the framework for such a service under the regulatory control of the Authority. After discussions with Paul Channon and Geoffrey Howe, I concluded that action should be taken on the IBA's recommendation and I accordingly announced recently by Arranged Parliamentary Question that I shall be implementing the relevant sections of the Act and inviting the Authority to advertise for programme contractors for three DBS channels.

I emphasised in my announcement that the role of Government in this enterprise is merely to provide the regulatory framework which will create the opportunity for potential participants to proceed with a service. There is still no certainty that a potential applicant will be found who can meet the substantial up-front investment required and face the severe risks of embarking on a new enterprise of this kind. In line with our agreed policy on DBS, it will still be for the market to decide whether such a service will prove viable without public subsidy.

If contractors are found to mount a service, one effect will be to greatly extend the influence of the IBA in our broadcasting arrangements since it will then be responsible for five national television channels as against the two run by the BBC. I should point out, however, that two channels will remain of the five allocated to us under the arrangements agreed by the World Administrative Radio Conference in 1977, and that if the BBC should decide at a later date to enter the DBS field it would have power to do so under its existing Charter, though only, of course, if I assigned it the frequencies. A number of detailed points about the new service will have to be addressed in the process of agreeing with the IBA the terms of their advertisement. In drawing up the fine print, my officials will be working closely with those of the Department of Trade. The intention is that the new service will be transmitted in C-MAC following the decision that we took in 1983. This remains the preferred choice of the relevant industrial interests. But if a likely contractor wished for commercial or other reasons to broadcast in another transmission standard, for example D2-MAC, we would have the opportunity to reconsider our stance on this.

The Rt Hon Viscount Whitelaw, CH., MC.

/over....

Most of this is no more than the playing out of policy already agreed and incorporated in the 1984 Act. However, there is one specific point on which I need to obtain the agreement of colleagues. Section 38 of the Cable and Broadcasting Act 1984 provides that the DBS programme contracts now to be advertised should last for 12 years. Almost all those who spoke to the IBA during the review argued strongly that this period needed to be extended to 15 years to provide sufficient time for a contractor to produce a satisfactory return on his very heavy initial investment. The IBA accordingly recommended that such a change was important if sufficient commercial interest were to be attracted. I have therefore agreed with Paul Channon that we should make such a change, but it will have to be done before the programme contractor enters into his contract with the IBA. This means that I must ask for the agreement of colleagues in principle now to this policy change, which would require a brief Bill confined to an extension of the contract period from 12 to 15 years (though this might be in the form of a provision enabling me to specify the contract period). If colleagues agree, this proposition can then be written into the IBA advertisement of the contract in terms which refer to a Government commitment to make the necessary legislative change at the earliest opportunity. It would then be for QL somewhat later to consider timing and procedure, if a suitable contractor had emerged.

I am copying this letter to the Prime Minister, other colleagues in H, Geoffrey Howe, Paul Channon and Sir Robert Armstrong.

Yours,

Douglas.

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

The Chairman of the IBA has completed his report on the future prospects for a UK DBS Service which he was asked to undertake, following the collapse of the joint BBC/ITV Consortium last June.

The Home Secretary's letter at Flag A notes that the IBA has concluded that there is sufficient commercial interest in the DBS project to justify his bringing into force the relevant provisions of the Cable and Broadcasting Act, 1984, so that the Authority can advertise for DBS contracts.

The Department of Trade and Industry (Flag B) have agreed this way forward, and in particular that the minimum of pre-conditions should be imposed on the invitation to tender, and that there should be free competition for the satellite (an earlier sticking point with the DTI). The Home Secretary will be making an announcement of this good news shortly.

MEA

MEA

12 February, 1986.

(B) cc BG

RESTRICTED

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

RESTRICTED

11 February 1986

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

3202

Dear Douglas

Thank you for your letter of 28 January and its enclosures.

I am content for you to proceed as you suggest. The outcome of the IBA Review has turned out to be very satisfactory. Its conclusions are, as you say, very much in line with those of our Task Force of officials. We see a need to embark upon an early UK DBS service if we are not to lose commercial and industrial advantages to our competitors. Only the market place can decide whether to go ahead given the commercial and technical uncertainties, but we should provide the earliest possible opportunity for those interested to come forward with proposals.

We will certainly want to work closely with the IBA on the way the invitation to tender is expressed. It is important that the minimum of preconditions should be imposed lest we close off commercially viable possibilities. For example, requirements as to geographical coverage of the UK or transmission standards should be regarded as negotiable if necessary; and the IBA should not pre-empt activities such as the running of the uplinks which could be better left to commercial parties. I place particular importance on the need for the assessment of the rival bids to take into account the overall economic advantages to the UK. This may have some influence on the proposals for the use of satellites, but I agree that we should make it clear (as does the draft answer to the PQ) that there should be free competition for the satellite. More generally I see DBS as providing opportunities and more

JF5AWQ

1786 1986 BOARD OF TRADE BICENTENARY

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competition in both television programmes and receiver manufacture and supply.

The arguments in favour of increasing the length of contract from 12 to 15 years are, I think, strong. Given the high costs and uncertain rewards it seems a sensible concession to make if it will improve financial viability.

Whilst I can agree with you that we should not seek now to find a different orbital position I would not rule out the need to seek a change in the UK beam. Particular contracts may press for it in order to increase European coverage. Whilst the prospects for negotiating such a change may not be very good, it would not be incompatible with making a start initially on a service covering the UK only, but switching automatically to wider coverage if we were successful in the negotiations.

I am copying this letter to the Prime Minister, the Secretary of State for Foreign and Commwealth Affairs, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal, and to Sir Robert Armstrong.

Yours

Paul

PAUL CHANNON

JF5AWQ

BROADCASTING
DBS...
PTS

CC 84

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FCS/86/23

SECRETARY OF STATE FOR THE HOME DEPARTMENT

IBA Review

1. Thank you for sending me a copy of your letter attached of 28 January to Paul Channon. I am pleased to learn that the IBA are optimistic about the chances of launching a viable UK DBS Service. I note and endorse your remarks about the need for speed, but I am sure that we should not let this rule out attempts to ensure wider European coverage. As you know, I attach great importance to the need for us to make the most of all opportunities - technological, job-creating and political - in this field.

2. In view of the need to press on quickly, I am content that you should announce your intention about a DBS service in Parliament. I suggest, nevertheless, that your Parliamentary answer should omit mention of the arrangements agreed by the World Administrative Radio Conference in 1977, as suggested in your enclosed draft, in order to leave the way open for any attempts that HM Government or the successful DBS operator might want to make either to extend the beam to the UK into continental Europe or to renegotiate our allocated orbital position to 19°W, or even to collaborate with another country which already has that orbital position.

3. I still see merit in a meeting with you and Paul Channon. I believe that it is essential to give full consideration to how a UK DBS service could in time best meet the range of UK objectives which I mentioned in my minute of 6 January 1986. A service on the lines that IBA appear at present to envisage might well not meet all of these. I do not think that such a meeting need delay your Parliamentary answer but I would prefer to have it before you decide the content of the IBA advertisement.

/ 4.

4. I am copying this minute to the Prime Minister, the Secretary of State for Trade and Industry, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
31 January 1986

020

(A) CC BG (non report)

QUEEN ANNE'S GATE LONDON SW1H 9AT

28 January 1986

CF
Await DTI comments, if any, on Monday. PL 3f on 4/2.
MEA 31/1

Dear Paul,

DIRECT BROADCASTING BY SATELLITE

The Chairman of the IBA sent me on 8 January the completed report of the Authority's study on the future prospects for a United Kingdom DBS service. I enclose with this letter a copy of that report together with Lord Thomson's covering letter.

You will see that, despite a recognition of the continuing uncertainties that exist, the IBA has reached a firm conclusion that there is sufficient commercial interest in the DBS project to justify my bringing into force the relevant provisions of the Cable and Broadcasting Act 1984 so that the Authority can issue an advertisement for DBS programme contracts. Your officials and mine have had discussions with the IBA to probe more deeply some of the assumptions and conclusions in the report. I now believe, in the light of what the Authority has told us, we should make an early announcement that we are bringing into force the provisions of the Act enabling the IBA to mount DBS. I understand that such a decision would be fully in line with the conclusions reached by your Task Force of officials who, along with mine and those of the Foreign and Commonwealth Office, have been considering all the options for progress on DBS. The main message from the Task Force, as I understand it, is that with the growing competition from continental DBS services, particularly France, it is essential for our industrial and commercial interests in this field that we take some early decisions. The Task Force concluded that if the IBA report indicated sufficient commercial interest in running a service, we should take immediate steps to facilitate the launch of an IBA service.

The IBA has said clearly in its report that there can be no certainty that a satellite project will be mounted or will be successful. I should like to underline that point. From the discussions my officials have had with the IBA, it is not yet apparent that any of the organisations that have shown an interest so far is capable of carrying the heavy financial risk for DBS or has identified the necessary financial backing. There remain major question marks in relation to the marketing of the service, such as whether sufficient advertising will be available to support it, or whether the right encryption technology is available for a subscription service: and above all, whether programmes can be provided of sufficient quality to attract consumers. I note what Geoffrey Howe

The Rt Hon Paul Channon, M.P.

/over

says in his minute to me of 6 January about the conclusion of Messrs Murdoch and Maxwell that television broadcasting by satellite is commercially viable. We have to recognise, however, that Mr Murdoch is simply leasing a transponder on a low-powered satellite at a cost of about £3 milllion per annum, and Mr Maxwell a DBS teansponder, probably at around £8 million per annum, that has been heavily subsidised by the French Government. This is a totally different scale of enterprise from a United Kingdom DBS service which would require a start-up capital investment of some £250 million. We must, therefore, recognise the considerable uncertainties that do exist, and accordingly maintain our consistent line that the Government's role is limited to that of providing the necessary legislative framework and an opportunity. There is, nevertheless, the possibility that by setting in motion the latest round of attempts to launch a D BS service, we shall stimulate the various parties who have expressed an interest to the IBA to come together and form substantial groups capable of taking the relevant risks, or indeed that new actors will appear on the scene. With this possibility in mind, and given the firmness of the IBA's recommendation, it seems sensible to bring the provisions for an IBA service into force as soon as possible.

I am assuming that the general pattern for the proposed service will be that of the joint venture: that is, a high-power service of up to 230 watts under the technical specifications provided by the WARC arrangements for the United Kingdom. There is no time to pursue, for example, the possibility of altering the UK beam or seeking any different orbital position. Similarly, I envisage that we should maintain our decision that the transmission standard employed should be C MAC.

There will be a number of detailed points to consider with the IBA in framing their advertisement, and our officials will be pursuing these in the coming weeks. I envisage that we shall make it clear to the IBA that it is desirable that in assessing contract applications they shall take account of the overall economic implications for the United Kingdom. For the purposes of any Parliamentary statement, there are three points on which we need to provide firm indications. First, the IBA report that they have received a number of submissions indicating that the commercial viability of the project would be greatly enhanced if the length of contract were extended from twelve years, as in the 1984 Act, to fifteen years. This is because, under most plans that have been prepared so far, a service does not become profitable until at least the seventh year of operation. If the length of contract period is, as the IBA implies, likely to increase significantly the chances of launching a United Kingdom service I believe we should give early undertakings to extend the period by three years. This would require legislation to enable the contract to reflect a longer period. If you and colleagues to whom I am copying this letter agree, I would propose to seek early policy approval from H Committee prior to making a formal bid to QL for a place in next session's legislative programme for the necessary one clause Bill.

The second question concerns the source of satellite provision. You will recall that when last year you considered with your predecessor what should be said on this question in respect of the IBA review, it was agreed that the Authority should announce that there would be freedom to consider proposals from suppliers either in this country or overseas, but that the Government would be opposed to any proposal which involved dumping. I assume that you would still be content for me to indicate in the public statement that there will be free competition for the satellite. You will see that in paragraph 18 of the IBA report reference is made to the possibility of securing a secondhand satellite through COMSAT, and that this might be delivered within eighteen months of the award of contract. Such speed of delivery could, of course, have a significant impact on the timetable for launching a United Kingdom service, and we should be careful not to rule out such possibilities when we came to consider the terms of the IBA's advertisement.

Finally, we agreed at the time of the joint venture that, in order to preserve the competitive position of the service during the difficult start-up years, the two remaining channels of our WARC allocation should not be activated until at least three years after the start of the service. The IBA have told us that this remains an important consideration in relation to the current plans. Accordingly, I would propose that in our public statement we follow the same formula in this regard as with the joint project.

If you and colleagues are agreed with my proposals in this letter, and subject to my obtaining clearance separately from H Committee, it is important that we make an announcement as soon as possible. This could take the form of the attached draft Parliamentary Question and Answer on which I should be grateful for your comments. I would hope to be able to make such announcement by early February if possible. We understand that it will then take the IBA, in consultation with us, from four to six weeks to prepare their advertisement. At least three months would be needed thereafter for the preparation of applications. This is a crucial period, which cannot be foreshortened if we are to allow for the relevant commercial interests to come together in formulating joint plans or for new potential applicants to prepare their proposals. After the application stage, a further month or two would be needed for the IBA to reach its decision and to issue its award of contract letter. It is just conceivable, therefore, that a firm decision could be reached on the programme contractor by the summer recess, but that would be a very tight timetable indeed.

I am grateful to Geoffrey Howe for the very clear expression in his minute of 6 January of his Department's concern for the future of DBS. If we decide to make an early announcement that we shall be implementing the IBA provisions in the Act, I assume that it will no longer be necessary to hold the meeting suggested in paragraph 7 of his minute. While I recognise his concern that the European options for DBS should be carefully considered, the Task Force has concluded that any change in the UK beam to provide a European coverage area, or any attempt to negotiate a new WARC position for the United Kingdom at 19 West, could take some years and would not necessarily result in a favourable conclusion. For present purposes, I believe we must plan for a primarily United Kingdom service depending on the footprint allocated to us under the WARC arrangements.

Yours ever
Douglas

P.S.

P.S. I am copying this letter to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal, and to Sir Robert Armstrong.

The National Archives

LETTERCODE/SERIES PREM 19 PIECE/ITEM 1678 (one piece/item number)	Date and sign
Extract/Item details: Lord Thomson to Home Secretary dated 8 January 1986 and enclosure	
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SG

cc MA and return please

CF pps. cc BG

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/50163/85

Your ref:

16 January 1986

cc BPM

Dear David,

CABLE AUTHORTIY

Thank you for copying to Sue Vandervord your letter of 13 December to Stephen Boys Smith about the notes left with the Prime Minister by Mr Richard Burton, Chairman of the Cable Authority, in the course of his discussion with the Prime Minister on that date.

Following that discussion, Mr Burton wrote to my Secretary of State on the subject of enterprise zones. I enclose a copy of that letter and the reply that was sent. The meeting referred to in the reply is now likely to take place next week.

Yours ever

B H Leonard

B H LEONARD
Private Secretary

David Norgrove Esq

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/50270/85
Your ref:

8 January 1986

Dear Mr. Burton,

Thank you for your letter of 16 December and the enclosures, which I read with interest, particularly the proposal that enterprise zone benefits should be extended to the parts of a cable system whose "headend" is situated within an enterprise zone.

The proposal is ingenious but the way in which the relevant legislation is framed precludes it, at least so far as the existing zones are concerned. The legislation enabling enterprise zones to be established requires that the area of the zone be specified almost as the first stage of the process; and the boundaries of the zone are defined in the statutory instrument that designates the enterprise zone. There are no powers to alter the boundaries of an enterprise zone once it has been designated. The major enterprise zone benefits are statutory and are available only within the areas defined as enterprise zones. This means that it would not be possible to extend the benefits in the way you suggest.

We have no plans at present to designate further enterprise zones. However, even if this were not the case, the same constraint would rule out the sort of flexibility that appears to be essential to the development of cable systems to meet market needs: this would seem to preclude the possibility of incorporating your suggestion in new enterprise zones, should we decide to add to those already in existence. Nevertheless, I understand that your Director of Finance and Operations is shortly to meet officials here. The meeting will provide an opportunity to explore the practicability of your proposal in the case of new zones.

I am sending copies of this reply to Geoffrey Pattie, John Moore and Douglas Hurd.

Yours sincerely

KENNETH BAKER

R.H. Burton Esq
R H Burton Esq

Sec of State

Cable Authority

Gillingham House, 38-44 Gillingham Street, London SW1V 1HU.
Telephone: 01-821 6161

From the Chairman

Rt Hon Kenneth Baker MP
Department of the Environment
2 Marsham Street
LONDON SW1

16 December 1985

Dear Ken Baker,

I do not think we have ever met but certainly part of a mantle once worn by you has now fallen on to my shoulders.

We have been giving considerable thought recently to financial ideas which might help cable and I enclose short notes of two of them which seem to us to be the most promising.

I am not sending them to you merely because of your interest in cable but, principally, because I believe the one relating to Enterprise Zones may affect your Department. I have also sent copies to Geoffrey Pattie, John Moore and of course Douglas Hurd.

Yours sincerely

Richard Burton

R H BURTON

Encs

CABLE DEVELOPMENT AND ALLOWANCES FOR SCIENTIFIC RESEARCH

Under the Capital Allowances Act 1968, expenditure on scientific research - including capital expenditure on pilot plant - may be offset against tax to the extent of 100% in the year in which the expenditure is incurred. Scientific research has been specifically extended to cover exploration for and development of oil and natural gas resources.

A number of UK companies have been developing switches for use in cable systems. The Government has an interest in promoting the installation of switched cable systems, not only for the sake of encouraging British industry (this is the only part of cable system hardware where there is presently a British technological dominance) but because these are the systems which will provide the interactive communications of the future.

Switch technology is as yet unproven, as indeed are modern cable systems in the United Kingdom. These uncertainties are constraining investment in the installation of new systems and are discouraging investment in particular in the more advanced - and more expensive - switch technology.

There is a case for a limited period for the installation of switched cable systems to be regarded as an extension of scientific research, in order to encourage the testing both of switch technology and of the market for new cable services. The Act gives to the Secretary of State the power to decide what should be regarded as scientific research for the purpose of its tax treatment. The capital allowances thereby made available would be a valuable stimulus to a new industry whose emergence is faltering through lack of investment confidence, and an important counter to the prevailing City view that the withdrawal of capital allowances in the 1984 Budget signalled the Government's loss of interest in the potential of cable.

CABLE DEVELOPMENT AND ENTERPRISE ZONES

Twenty-five areas in the United Kingdom have been designated as Enterprise Zones as a means promoted by the present Government of generating industrial revival. They include such places as the Isle of Dogs in the London Docklands, Corby, Dudley, Middlesbrough, Salford/Trafford, Tyneside, Clydebank, Belfast and Londonderry. Benefits available in Enterprise Zones include exemption from local authority rates, 100% capital allowances and simplification and speeding up of planning and other bureaucratic procedures.

The experience of Enterprise Zones so far has been mixed. Some have been accused of succeeding only by beggaring their neighbours; others are not yet succeeding.

An important ingredient of industrial revival is modern communications, and the potential of cable in this respect has been perceived by the London Docklands and Clydebank, where cable franchises have already been granted, and in some other areas, such as North West Kent, where it has not so far been possible to make progress. However, Enterprise Zones are too small in themselves to constitute cable franchise areas and there needs to be encouragement for cable operators to take an interest in the larger area in which an Enterprise Zone is situated.

This encouragement could be given by a concession that a cable system whose headend was situated within an Enterprise Zone would receive Enterprise Zone benefits for the whole of the cable system which was thereby served, even those parts of it extending beyond the limits of the Zone. This would benefit Enterprise Zones by encouraging the provision of broadband communications networks to serve businesses setting themselves up in the area; it would benefit the surrounding areas by giving them the advantages of being able to enjoy the same communications facilities; it would benefit the cable industry as a whole by giving a fresh impetus; and it would meet the objective of both the Government and the Cable Authority in encouraging thinking about cable as much more than a television distribution medium.

10 DOWNING STREET

From the Private Secretary

13 January 1986

Dear Tim

ITAP REPORT ON CABLE SYSTEMS

Thank you for your letter of 19 December. The Prime Minister has noted the result of the further discussions between the Panel and your Minister. She is content that Mr Pattie should now write to Roger Gale, M.P., on the Prime Minister's behalf, outlining to him the current position.

I am copying this to Rachel Lomax (HM Treasury), Stephen Boys Smith (Home Office), Leigh Lewis (Department of Employment) and to Sir Robin Nicholson.

Yours ever

Mark Addison

Mark Addison

Tim Abraham Esq
Department of Trade and Industry.

E.R.

PRIME MINISTER

ITAP REPORT ON CABLE SYSTEMS

You asked that DTI should pursue their discussions with the Information Technology Advisory Panel, about the Panel's Report on Cable Systems, and that they should then come back to you with recommendations as to how it should be handled.

The DTI report is at Flag A. A useful summary of the main recommendations of the ITAP Report drawn up by the Policy Unit is at Flag B.

The Panel is content with the Government's response, for the most part. They remain unhappy, however, with DTI's rejection of the recommendation that they should oblige BT to share their ducts and poles with cable operators.

The ITAP Report was designed to be a confidential Report to Ministers, and they are not pressing for its publication. DTI for their part believe that the Report and the Government's response are best not published in full, but that Mr. Pattie should write to Mr. Gale outlining where matters have got to. The Policy Unit are content with this approach (Flag C).

Content with the Government's response to the ITAP Report and that Mr. Pattie should now write in general terms along those lines, to Roger Gale, M.P.?

Yes MT

MEA

Mark Addison
9 January 1986

BM2ABG

CF
Rep1.

MR ADDISON

8 January 1986

ITAP REPORT ON CABLE SYSTEMS

ITAP are broadly content with the Government's response but apparently share DTI's view that publication of the report and the response would be unhelpful. Mr Pattie is therefore seeking the Prime Minister's agreement that he should write to Roger Gale MP outlining what has transpired. This seems sensible.

The only unresolved issue was the question of the Government legislating to force BT and Mercury to allow access to their cable ducts to cable providers where a sensible commercial proposal had been made. The issue is probably more hypothetical than real and BT have undertaken to look at all proposals on their commercial merits. Primary legislation would be required to enforce access. This seems something of a sledgehammer when under the existing regime any party who believes they have suffered through BT abusing their monopoly position (which unreasonable denial of access would be) can complain to OFTEL. If OFTEL upholds the complaint then they can propose an alteration to BT's licence terms subject to the approval of the Monopolies and Mergers Commission. This seems adequate.

We recommend the Prime Minister agrees with the DTI line.

Peter Warry

PETER WARRY

BROADCASTING PES

DIRECT BROADCASTING

CC BG

Aw on't IBA regt.
Rom H.O — no B/f tho'
pp MEA

FCS/86/003

SECRETARY OF STATE FOR THE HOME DEPARTMENT

Direct Broadcasting by Satellite

1. Since I minuted about DBS to your predecessor on 15 July and received his positive reply of 19 July, our officials have been in regular contact in the DTI-led Task Force about the options available to the UK for a DBS Service, including one under the aegis of the Independent Broadcasting Authority (IBA). I understand that the IBA have almost completed their investigations and will shortly submit their report to you.

2. The concerns that I expressed in my minute to Leon Brittan in July have increased with recent developments in the field of TV broadcasting by satellite in Europe. It is clearly important that the United Kingdom should not be left behind by other European governments and companies in the development of new technologies and equipment and in seizing the commercial opportunities they present. The implications for wealth creation and employment are significant.

3. I am also keen to ensure that with the rapid spread of television across frontiers in Europe a British voice should be heard. New markets are opening up for programming and the opportunities for British programme-makers must be enormous. It is obviously important from a commercial as well as a cultural/ 'promotion of Britain' standpoint that they be given every opportunity to develop their potential.

4. Whether or not it is decided that a UK DBS service is feasible, Messrs Murdoch and Maxwell seem to judge that television broadcasting by satellite is commercially viable. I am clearly very interested in the implications for our information and cultural

/ efforts

efforts overseas in a satellite service receivable not just in the UK but also further afield. I am keen therefore that we should examine the European options carefully. We must also take into account the European Community involvement, which is particularly important on standards.

5. The ITV companies' proposals for a 'Superchannel' in collaboration with the BBC beamed to a Europe-wide audience later this year is particularly encouraging in this respect. We shall also be following with interest the BBC's current investigations into the possibilities for an External Services news and current affairs service in vision.

6. Clearly the main problems are in finance (the French and German DBS services are backed by public funds); the assessment of consumer demand (where the interest of British consumers at least is not yet clear); and the pace with which technological developments are taking place (British industry is clearly not certain which horses to back). I think the Government has a role to play in helping to energize, coordinate and clarify the directions in which we should all be heading. The contrast between the scale and pace of this kind of activity in North America and in Europe is very striking.

7. In view of these concerns, and of the possible risks to our aerospace, consumer electronics and information technology industries, I would find it very useful to have an early meeting (later this month if possible) with you and Leon Brittan, to discuss the issues and to see what if anything the Government should be doing to protect UK interests. Leon and I had a chance to discuss all this informally during the Christmas break and he well understands my concern. Perhaps the best time for a meeting would be after you have studied the IBA report. Once this has been received, FCO officials would be happy to meet your officials to explain our concerns, particularly on the overseas information side.

8. I am copying this minute to the Prime Minister, to Leon Brittan and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
6 January 1986

DIRECT
BROADCASTING
PT 5

DEPARTMENT OF TRADE & INDUSTRY
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Apologies for this not being attached. (Letter dated 19/12/85)

With the Compliments of

GEOFFREY PATTIE MP.

999-159

CCBG (A)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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From the Minister of State
for Industry and Information Technology

GEOFFREY PATTIE MP

Mark Addison Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1

BT

PM left on Friday 2/1
so letter can wait
to PM MCA 31/12

19 December 1985

Dear Mark,

ITAP REPORT ON CABLE SYSTEMS

Your letter of 7 August to John Mogg asked that we should update the Government's response to the ITAP report (copy enclosed); and for the report itself and the response to form the basis of a discussion between ITAP and my Minister. This took place on 18 November.

On the whole ITAP accepted the Government's response and welcomed most of it, notably continuing Government support for the cabling of Britain, the decision to liberalise Satellite Master Antenna Television Systems and the provision of Government support for the demonstration of interactive services on cable. ITAP still hope that it will be possible to link the Houses of Parliament to the Westminster cable network but they recognise that this is a decision for the House Authorities and the CCTA.

ITAP were, however, extremely disappointed with the response to their recommendation that British Telecom should be obliged to share its ducts and poles with cable operators, and the main part of the discussion was taken up with this issue. Mr Pattie explained that the Government had no powers to force BT, or for

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that matter Mercury, to share ducts with cable operators and that legislation to take such powers was not a practicable proposition. It was clear that there could be no agreement between ITAP and the Government on this issue, but we do not believe that any further approach to the Prime Minister is needed, as suggested in your letter of 7 August to John Mogg.

Finally, there is the question of what should be said in public about the report. There was some press interest in the review back in the Spring and Roger Gale MP tabled a question to the Prime Minister to ask if she would make a statement on it. The Prime Minister replied that she was considering the report with colleagues and would make a report as soon as possible. We therefore need to decide how this commitment is to be met. We would not recommend publication of the report and the response - a view which we believe ITAP shares - because of the dampening effect it could have on the industry. We therefore propose that Mr Pattie should write to Mr Gale, on the Prime Minister's behalf, giving him a very brief outline of what has transpired. Perhaps you could let me know if the Prime Minister is content with this approach.

I am copying this letter to Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), and Leigh Lewis (Employment).

Yours ever,

Tim Abraham

T P ABRAHAM
PRIVATE SECRETARY

M12/M12AES

BROADCASTING

DBS PT 5

MENT OF TRADE AND INDUSTRY RESPONSE TO THE ITAP REPORT
ABLE SYSTEMS" A RE-ASSESSMENT

General

1. The main conclusion of the ITAP report is that confidence in the financial viability of cable has deteriorated to the point where Government must take corrective action to prevent the cable industry from failing to take advantage of the commercial and industrial opportunities which ITAP identified in their first report in 1982. ITAP take the view that this downturn in confidence has been caused by a variety of factors, notably the decision in 1984 to phase out capital allowances, the slow progress in reaching agreement on the licences for the pilot cable systems, a weakening of Government commitment to the industry and uncertainties about the level of demand for interactive services. ITAP's package of measures is designed to restore the confidence of potential investors in cable and so pave the way to the creation of a national network of advanced cable systems capable of offering a wide range of interactive services.

2. There is much in the report which the Department of Trade and Industry supports. In contrast to some sections of the cable industry, ITAP remain fully committed to the policy of using cable as a vehicle for introducing new forms of interactive service in both the domestic and business sectors. Their analysis in paragraphs 18 and 19 is a powerful case against those in the industry who argue that the present difficulties faced by cable operators will inevitably result in a reduction in the quality of the technology. We also welcome ITAP's endorsement at paragraph 10 of the report of the Department's flexible approach towards the timetable for upgrading systems to full interactivity. However, there are other recommendations in ITAP's report which the Department believes will be impossible to implement. The following paragraphs provide a detailed response to each of the Panel's recommendations.

RECOMMENDATION 1: The Government should firmly restate its support for cabling Britain and its confidence in the future of cable systems as part of the national infrastructure

3. Ministers have stressed repeatedly this year that there is no weakening of Government commitment to the cabling of Britain. In particular Mr Shaw made it clear that the Government's support and confidence in cable remained as strong as ever in his speech to the Financial Times Conference on Satellite and Cable in March. This message was further underlined by Mr Butcher at the Royal Television Society Conference in April and by Mr Pattie following a visit to Swindon in March. However, as the report acknowledges, little would be achieved if Ministers were to make a series of over-optimistic statements that were not supported by the facts. The objective, therefore, will be to draw the attention of the City and industry generally to the opportunities offered by the expansion of cable and Ministers will be pursuing this objective in forthcoming speaking engagements.

MENDATION 2: All necessary legal steps should be taken to ensure that BT and Mercury allow all cable providers access on reasonable and equitable terms to cable ducts, overhead wiring from poles, etc. If the powers available to the Director-General OFTEL under the BT and Mercury licences are not adequate to achieve this then other options ... should be explored.

4. The Government cannot accept this recommendation. Ducts are part of BT's and Mercury's assets and neither company can be compelled to make those assets available to cable providers. It must be left to their own commercial judgement. In several cases cable providers are working in partnership with BT or Mercury, and access to ducts and existing infrastructure is no doubt a key component of the two companies' contribution to those partnerships. Legal problems apart, this existing involvement of BT and Mercury makes it all the more difficult to contemplate their partners' competitors having equivalent right of access to ducts other than under normal commercial agreement in which there is no element of compulsion.

RECOMMENDATION 3: Cable franchises should be allowed to develop gradually within constraints which avoid lucrative areas being cabled to the exclusion of the remainder of the community. This applies both within the typical cable franchise area and, where possible without conflict with consumer interests, beyond the boundary of such an area

5. The telecommunications licence for cable operators which the Department has agreed with the Cable Television Association already permits the type of flexible construction programme which ITAP envisages in this recommendation. Condition 1 of the licence includes a timetable for the installation of the system couched in terms of the number of premises passed by particular dates. The approach that has been adopted gives the cable operator complete freedom to choose which parts of his franchise area to cable first. The Office of Telecommunications (OFTEL), who will be monitoring the installation, will need to be satisfied that adequate progress is being made towards the final objective of cabling the whole area by reference to the stated milestones. The Director General OFTEL will have the power to agree changes in the milestones (but not the final completion date) without the need to go through the formal process of modifying the licence condition itself under the procedures set out in the Telecommunications Act 1984.

6. What this means in practice is that the cable operator will have complete freedom to determine the order in which he constructs his cable system but will be under an obligation to ensure that the whole of the licence area is cabled by the end of the installation period. This latter obligation is to avoid the possibility, which ITAP rejects as being undesirable, of the lucrative parts of a licence area being cabled up to the exclusion of the other areas.

7. ITAP also recommends that the cable operator should be allowed some flexibility in extending the cable system beyond the original licence area. This is a matter for the Cable Authority who have already indicated that they are prepared to consider applications for extensions.

MENDATION 4: Licences should be granted for the reception of cable programmes from satellites by MATV installations, both new and developed from existing systems, and the period and terms of these licences should encourage the extension of cable systems into full cable networks

8. DTI believes that a carefully controlled expansion of Satellite Master Antenna Television (SMATV) will be beneficial to the cable industry by providing it with an early source of revenue, increasing the potential audience for programme services delivered from low-powered satellites and opening up new opportunities for equipment manufacturers.

9. On 23 May 1985 therefore Mr Pattie announced that a relaxation in the licensing of SMATV and other cable diffusion systems could be permitted, in a way which does not prejudice the subsequent upgrading of these systems into full cable networks. For this reason SMATV licences will be restricted in certain cases; the terms of such licences will be shorter; and the operator will be expected to give way in due course to any operator who is granted a wideband franchise by the Cable Authority covering the area in question. The Department's approach is therefore consistent with that advocated by ITAP in paragraphs 28 and 29 of the report.

RECOMMENDATION 5: Government should bring cable ventures within the scope of the Business Expansion Scheme, under the supervision of the Cable Authority, and should consider whether other suitable forms of assistance can be made available

10. Contrary to the impression given in the report, cable is not currently excluded from the Business Expansion Scheme since individuals can qualify for relief on investments of up to £40,000 in cable ventures. The Panel's recommendation that companies investing in cable should also qualify for relief on investments of up to £500,000 is open to a number of objections. First, to extend the scheme in this way would have significant public expenditure implications. Companies wishing to invest in areas other than cable would press for similar treatment and these claims would be difficult to resist, particularly in relation to other forms of telecommunication systems such as the BT and Mercury networks. The cost to the Exchequer of even a limited extension would therefore be considerable and would be difficult to justify against the background of the Government's cable policy, which has always been that cable development should be private sector financed. A second objection to the recommendation is that the extension of BES to corporate investment would act as a fiscal distortion to investment decisions and would be inconsistent with the Chancellor's objective of seeking to minimise such distortions. The extension would also be incompatible with one of the primary objectives of the BES itself, which has been to encourage a wider share ownership through attracting individuals to invest in companies. Finally if companies were permitted to qualify for BES relief, problems of tax avoidance could also arise with some investments qualifying for relief twice. All these considerations point towards rejecting the Panel's proposals, particularly when the existing consortium relief arrangements which have been significantly extended in this year's Finance Act already effectively give relief to companies investing in cable operations.

11. The Panel's remaining proposals in this section are open to similar objections. The existing Loan Guarantee Scheme only extends to loans of up to £75,000 and is therefore inappropriate in the context of cable. But setting up a new scheme to cover all the costs of a cable system would be open to the same objections as those which apply to the BES proposal. The Panel's third suggestion - that the installation of cable systems should qualify for home improvement grants - falls within the responsibilities of the Department of the Environment. However, we understand that these grants are intended primarily to encourage the improvement and repair of older, sub-standard properties. To extend the scheme to cover the cost of cabling would therefore be inconsistent with its objectives.

RECOMMENDATION 6: Government should encourage the development of cable technology by the selective funding of a limited number of demonstrator projects

12. The Department agrees with ITAP that selective funding will be required to encourage cable operators to experiment with new forms of interactive service making use of advanced technology. The Department has therefore set aside £5m spread over a period of 5 years to provide up to 50% funding for the setting up and running of new advanced interactive services over wideband cable systems. Applications for this funding are currently being invited. Each successful application will be treated as a demonstration project which means that the Department will monitor the progress of the project over an agreed period of time and make the results available to the cable industry as a whole. It is hoped in this way to assist the development of commercially attractive interactive services by providing an effective test bed for those services, by increasing public awareness and by pulling through the underlying technology.

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14. Ultimately, of course, any decision on the implementation of such a proposal is for the House Authorities and the CCTA. The CCTA are currently undertaking their own study of the non-voice communications needs of Government Departments as a whole with a view to providing an integrated voice and non-voice services network across Government.

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Broadcasting Act
DBS

SUBJECT
cc Master

file JA
cc BG V

10 DOWNING STREET

13 December 1985

From the Private Secretary

Dear Stephen,

CABLE AUTHORITY

Mr Richard Burton, Chairman of the Cable Authority, came to see the Prime Minister this afternoon.

He first explained the slow progress being made in introducing cable television, speaking along the lines of paragraph 3 of your helpful brief. He explained that the Cable Authority were looking for ways of boosting investment in cable without cutting across the Government's general strategy. The Authority have identified two: the extension of enterprise zone benefits to cable systems which start within a zone, and the granting of capital allowances for the installation of switch cable systems.

The Prime Minister gave these ideas no encouragement, but said they would be considered. Mr Burton left the two notes, attached.

He told me afterwards that he would also send them separately to the relevant Departments.

I am copying this letter to Tony Kuczys (HM Treasury), Michael Gilbertson (Department of Trade and Industry) and to Sue Vandervord (Department of the Environment).

Yours ever

David.

(DAVID NORGROVE)

Stephen Boys Smith, Esq.,
Home Office.

From: THE PRIVATE SECRETARY

CC PLU

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

on Thursday
B/F for the meeting please ~~tomor~~

6 December 1985

Dear David,

In your letter of 23 September to Christine Heald, you asked for briefing for the Prime Minister in time for her meeting with Mr Richard Burton, the Chairman of the Cable Authority, on 10 December. This is now attached.

I am copying this to Tim Abrahams in DTI.

yours ever

Clare

MS C PELHAM

David Norgrove, Esq

BUP
cc MA

THE PRIME MINISTER'S MEETING WITH THE CHAIRMAN OF THE CABLE AUTHORITY, MR RICHARD BURTON, 10 DECEMBER 1985

BRIEFING BY THE HOME OFFICE

Introduction

We understand that this is primarily a courtesy call. Mr Burton has similarly met the Home Secretary and Mr Pattie during the past three weeks. We do not expect Mr Burton to raise substantive issues and the occasion will provide an opportunity for the Prime Minister to re-affirm the Government's commitment to cable at a time when it is going through a difficult period.

POINTS TO MAKE

1. Congratulate Mr Burton and his fellow members for successfully establishing the new Author over the past year.

2. Regret that progress in establishing cable systems has not been as rapid as hoped due to factors outside the Authority's control and in particular the investment climate.

3. Reconfirm the Government's belief that cable has [a vital] an important role to play in the future pattern of telecommunications and in widening the choice of television services available to the public.

DEFENSIVE BRIEFING

Capital allowances, taxation and grants

The removal of capital allowances in the 1984 budget hit cable particularly hard. Home Office and DTI Ministers have drawn these difficulties to the attention of the Treasury but recognise that there is little scope for making special examptions. The industry is developing some proposals for easing the tax position of cable and suggesting possible use of science and technology grant schemes. If raised the Prime Minister should say that she understands that the industry is planning to produce proposals in this area and should encourage Mr Burton to

discuss them in the first instance with DTI Ministers, when they are available.

The involvement of British Telecom

British Telecom with its large financial and technical resources has a potentially important role to play in re-vitalising interest in cable. However, the Cable Authority believes that BT is only prepared to play where it can achieve a monopoly position. It is not, for example, prepared to take a share in a cable operation unless it has the controlling interest, and it is unwilling to allow its telephone ducts to be used by other cable operators in order to reduce installation costs. If raised the Prime Minister should say that she is aware of these matters and that she understands that DTI is actively considering them.

BACKGROUND

The Cable Authority

1. The Cable Authority was established by the Cable and Broadcasting Act 1984 with a duty both to promote and to regulate cable. Mr Burton was appointed as Chairman in November 1984. He is 61, was trained as a barrister, and spent most of his career with Gillette Industries, serving as Chairman for six years until shortly before his appointment to the Cable Authority.

2. In the year since his appointment Mr Burton has successfully established the Cable Authority, which now has its full complement of six members in addition to the Chairman and recently moved into premises in Victoria. It has an executive staff of four, in addition to a Director General.

Progress of Cable

3. A fuller note on the present state of cable is annexed. This describes a depressing picture:

(a) there is a famine of investment, partly as a result of the removal of capital allowances in the 1984 budget, and partly because investors have no confidence at present that the high costs and risks of cable will reap adequate returns;

(b) of the 11 'pilot' projects started before the establishment of the Cable Authority, 7 are operational but none has yet more than a few hundred subscribers;

(c) so far cable services have only been taken up by about 15% of potential subscribers;

(d) Thorn EMI appears to be losing interest in cable, raising doubts about two of the more successful systems - Swindon and Coventry;

(e) all of the first 5 advertised franchises are having difficulty raising finance;

(f) almost no interest has been shown in the second 5 advertised franchise areas;

(g) the Authority is revising its projections so that instead of advertising 30 franchises over the next two years as originally envisaged, it expects to advertise only 6;

(h) there could be knock-on effects on programme providers if they do not see an adequate growth in the subscriber base;

(i) the finances of the Authority - which is intended to be met from licence fees - will be affected because of the slow growth of new services. The Home Secretary has made it clear to Mr Burton that the Home Office will continue to assist the Authority with loan finance until its prospects improve.

The future

4. There can be no certainty at this stage that cable will become profitable in the near future. The prospects are somewhat volatile. If there were to be a rapid growth of new and attractive programme services this might make cable services more attractive to subscribers and improve returns on capital. However, these services are likely to be delivered by satellite and a growth of interest in the

direct reception of these satellite services over the next few years might choke off the opportunities for the cabling in new areas of the country.

5. Interactivity is probably an important selling-point of cable in the longer term, but the technology is expensive and there is little interest in using interactive facilities until the choice of services is larger. This will take time. At present there are no interactive services operating. The Department of Trade and Industry has made £5m available to provide 50% funding for demonstration projects, in order to encourage cable services to experiment with interactive projects. The first interactive service is likely to be in Docklands, catering primarily to business rather than to domestic users.

Home Office
5 December 1985

THE CURRENT STATE OF THE CABLE INDUSTRY

Introduction

Cable continues to progress more slowly than first envisaged, and there appears to be little likelihood of improvement in the immediate future. The main reason is that it has not yet been able to generate the confidence of investors that the prospects are sound and the risks worth taking. In short, there is a famine of investment which is likely to continue until financial institutions can see such a demonstration of success from actual operations that they are convinced of the return to be made. The feeling of the Cable Authority and some parts of the industry is that it will be at least two years before a change of climate can be expected.

The eleven pilot projects

2. It is now two years since the Government awarded the eleven* pilot project franchises, and seven of those eleven are now in operation. Two of them however - Swindon and Coventry - are likely not to proceed very much further unless they can gain a further injection of funds from other investors. Both are controlled by what had previously been regarded as one of the more solid and committed companies in the field, Thorn EMI. Thorn have, however, had difficulties on a broader front and are looking to reduce their commitment in those areas which add nothing to the group's profitability; cable operations is one of these. Thorn stopped installing the Swindon system a little while ago, and may soon be in the position of having to renegotiate the terms of their licence. They have never been able to push the penetration rate in Swindon above 12%, a figure which will persuade no-one that cable investment is a worthwhile proposition. The company's diminished enthusiasm has also held back progress in Belfast, with British Telecom apparently now the only one of the shareholders in Ulster Cablevision to have any interest in proceeding.

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*Operational:	not yet operational:
Aberdeen	Ealing
Clyde	Guildford
Coventry	Merseyside
Croydon	Ulster
Swindon	
Westminster	
Windsor	

E.R.

As a result, the venture there is on ice for the time being. Another of the eleven, Merseyside Cablevision, has been struggling for almost two years to raise the money to permit it to go ahead, without very much progress; it is still in negotiation with prospective new investors.

The five advertised franchises

3. Of the five franchises the Authority awarded in August, Shaw Cable (Wandsworth) has collapsed due to the withdrawal of its original investors because they did not believe that cable represented a good investment. One of the others, Bolton Telecable, have made clear their view that the financial environment for cable is totally hostile and that they see no way in which they can raise the capital they need in the foreseeable future. A third, East London Telecommunications, are determined to press ahead with a placement of their shares but their financial advisers have told the Cable Authority that they are pessimistic about their being able to raise the capital. If they are correct, this will add to the spiral of depression. The fourth company, Cotswold Cable, already have most of the commitment they need from their existing shareholders to make a modest start, but also need to raise further capital. It remains to be seen how well they can do this.

4. The fifth of the franchises is Rediffusion, and their franchise application for West Surrey and East Hampshire specifically said that the venture would be financed entirely from the resources of the Pergamon Group. Mr Maxwell, however, does not have a bottomless purse and is apparently now seeking to raise money from other investors to help his cable operations. Those cable operations involve not only the new broadband systems but Rediffusion's existing upgrade systems. In fact, Rediffusion have still not been able to find the money to convert some of the systems which were licensed by the Home Office. Indeed, they hold licences for eleven systems which are still not operational and these pass almost 300,000 homes. Their failure to activate these systems is explained in part at least by the fact that those systems

which are operational will make a loss of about £14 million in the current year, far divorced from the assessment of the Economist Intelligence Unit two years ago that the provision of new services over Rediffusion's old systems would be highly profitable.

The second round of advertised franchises

5. The Authority tell us that almost no interest has been shown in the second round of franchises which have been advertised, even though applications can be made without the need to show initial capital. The Authority has been forced to conclude that it cannot proceed with its franchising programme in the form in which it was announced, (5 new areas every 4 months), and that no new areas should be advertised for the present. Over the next few months, it will watch the market to see when a new round might prove worthwhile. It hopes that there may be a continuing trickle of interest (British Telecom is a likely contender if DTI are prepared to sanction it), but cannot be certain.

The next two years

6. In total the Authority estimates that it might be reasonable to expect 6 new franchises to be advertised over the next two years, instead of the 30 originally intended. It hopes that after this period confidence will be recovered to the extent that it can resume its previous timetable. The Cable Television Association accepts the reality of this forecast.

7. The Cable Authority is looking at ways of improving the current prospects, including more active promotion, but recognises that the only real incentive to new investment will be a demonstration of actual success in a cable operation. There is no immediate prospect of this.

Programme provision

8. The slower growth of cable will hit the programme providers who are currently operating at a loss in the UK market, but who have based their optimistic projections of future audiences upon

F.R.

the rate of growth implicit in the Authority's original franchise timetable. There is a risk that the revised projections will send a tremor through the programme industry. Any reductions in the number or quality of programmes available to cable subscribers would be a serious blow since at present the only attraction of cable lies in providing a good range of alternative programmes. W H Smith has recently become involved in a new 'Lifestyle' channel and British Telecom is strengthening its involvement in programme provision as a prerequisite of ensuring a market for its cable operations. The presence of these two participants should help steady the programme industry.

The finances of the Authority

9. The Authority itself will be hit hard by reductions in income as a result of slowing the issue of licences, and is currently assessing the detailed effects upon its budget. At present the Authority is financed by a loan from the Home Office which is due to be repaid in two years. This will now clearly not be possible and the loan will almost certainly have to be increased. (A maximum of £2 million is allowed for in the Act). The Authority has put in an immediate bid for an additional £100,000 to allow it to continue its plans to purchase satellite receiver dishes and office automation equipment. This is being resisted by the Treasury but our view is that any excessive belt-tightening imposed on the Authority at this stage would be a morale blow to its staff and members, and would be seen by the industry as the first step in a Government withdrawal from cable. We consider that the risks of this expenditure being ultimately wasted are less than the danger of upsetting morale and confidence at a crucial time.

The long term

10. There are no easy predictions about the long term. It is in the interests neither of the Cable Authority nor of the industry to encourage speculation, and their public position remains that the advent of cable is inevitable; the only question remaining is when. This prediction is, however, by no means certain to be fulfilled. Unlike other forms of new technology, there is

unlikely to be any significant fall in costs since the main expense is the laying of the cables. So long as the high technical standards required by the legislation are insisted upon, the cost of cable laying will not be substantially reduced. At the present time only a small minority of homes passed by cable (on average less than 1 in 6) is prepared to pay relatively high subscriptions (up to £18 per month).

11. The perceived value for money of subscribing to cable will be improved as additional programme services become available, but this will coincide with the growth of new services directly receivable from satellites at possibly lower prices. Whilst some people argue that interactivity will be an important selling point, this will be attractive only when a significant proportion of the country is cabled so providing a network of interactive services; and the American experience in this field provides no assurance that there is indeed a consumer demand for such services. In the meantime, there is growing consumer investment in telephone-linked interactive equipment using Prestel and other similar systems, which threatens to satisfy the present market for this kind of service.

Conclusion

12. It therefore remains a possibility that cable services of a high technical standard will not cross the threshold into profitability for some years. In the long run the Government's strategy for cable is probably still valid, but because of the slow start it may be overtaken by the development of direct reception of high and medium powered satellite systems offering quicker and cheaper access to a mass market. How the balance of advantage between cable and directly received satellite systems will develop is difficult to predict, but it is not impossible that if the latter grows quickly over the next five years it could squeeze out the market for cable. In the short term, the Government should continue to give every support to cable and avoid precipitating an irreversible loss of confidence.

T1 DIVISION
18 November 1985

BROADCASTING
CABLE SYSTEMS
PT 5

7

CABLE DEVELOPMENT AND ENTERPRISE ZONES

Twenty-five areas in the United Kingdom have been designated as Enterprise Zones as a means promoted by the present Government of generating industrial revival. They include such places as the Isle of Dogs in the London Docklands, Corby, Dudley, Middlesbrough, Salford/Trafford, Tyneside, Clydebank, Belfast and Londonderry. Benefits available in Enterprise Zones include exemption from local authority rates, 100% capital allowances and simplification and speeding up of planning and other bureaucratic procedures.

The experience of Enterprise Zones so far has been mixed. Some have been accused of succeeding only by beggaring their neighbours; others are not yet succeeding.

An important ingredient of industrial revival is modern communications, and the potential of cable in this respect has been perceived by the London Docklands and Clydebank, where cable franchises have already been granted, and in some other areas, such as North West Kent, where it has not so far been possible to make progress. However, Enterprise Zones are too small in themselves to constitute cable franchise areas and there needs to be encouragement for cable operators to take an interest in the larger area in which an Enterprise Zone is situated.

This encouragement could be given by a concession that a cable system whose headend was situated within an Enterprise Zone would receive Enterprise Zone benefits for the whole of the cable system which was thereby served, even those parts of it extending beyond the limits of the Zone. This would benefit Enterprise Zones by encouraging the provision of broadband communications networks to serve businesses setting themselves up in the area; it would benefit the surrounding areas by giving them the advantages of being able to enjoy the same communications facilities; it would benefit the cable industry as a whole by giving a fresh impetus; and it would meet the objective of both the Government and the Cable Authority in encouraging thinking about cable as much more than a television distribution medium.

ENTERPRISE ZONES

The benefits available in the zones are as follows:

- exemption from local authority rates on industrial and commercial property
- exemption from Development Land Tax
- 100% capital allowances for Corporation Tax and Income Tax purposes
- exemption from levy imposed and reduction in information demanded by Industrial Training Boards
- simplification and speeding up of planning and other bureaucratic procedures
- applications for certain customs facilities are processed as a matter of priority and certain criteria are relaxed
- reduction of government demands for statistical information

The zones may vary in size from about 50 to over 450 hectares (129 to over 1100 acres).

As from November 1984 the list of zones is as follows:

In England:
Corby
Dudley
Glanford (Flixborough)
Hartlepool
Isle of Dogs (London Docklands)
Middlesborough
North East Lancashire
North West Kent
Rotherham
Salford/Trafford
Scunthorpe
Speke (London)
Telford
Tyneside
Wakefield
Wellingborough
Workington

In Wales:
Delyn
Milford Haven Waterway
Lower Swansea Valley

In Scotland:
Clydebank
Invergordon
Tayside

In Northern Ireland:
Belfast
Londonderry

Further information including addresses and telephone numbers of contacts and special incentives available in specific areas can be obtained from:

Department of Environment
2 Marsham Street
London SW1P 3EB

Tel: 01-212 7158

CABLE DEVELOPMENT AND ALLOWANCES FOR SCIENTIFIC RESEARCH

Under the Capital Allowances Act 1968, expenditure on scientific research - including capital expenditure on pilot plant - may be offset against tax to the extent of 100% in the year in which the expenditure is incurred. Scientific research has been specifically extended to cover exploration for and development of oil and natural gas resources.

A number of UK companies have been developing switches for use in cable systems. The Government has an interest in promoting the installation of switched cable systems, not only for the sake of encouraging British industry (this is the only part of cable system hardware where there is presently a British technological dominance) but because these are the systems which will provide the interactive communications of the future.

Switch technology is as yet unproven, as indeed are modern cable systems in the United Kingdom. These uncertainties are constraining investment in the installation of new systems and are discouraging investment in particular in the more advanced - and more expensive - switch technology.

There is a case for a limited period for the installation of switched cable systems to be regarded as an extension of scientific research, in order to encourage the testing both of switch technology and of the market for new cable services. The Act gives to the Secretary of State the power to decide what should be regarded as scientific research for the purpose of its tax treatment. The capital allowances thereby made available would be a valuable stimulus to a new industry whose emergence is faltering through lack of investment confidence, and an important counter to the prevailing City view that the withdrawal of capital allowances in the 1984 Budget signalled the Government's loss of interest in the potential of cable.

DBS

File

DBS

bc: Mr. Warry
Mrs. Ryder

10 DOWNING STREET

From the Private Secretary

23 September 1985

The Prime Minister has agreed to meet the new Chairman of the Cable Authority on Tuesday 10 December. Could you please provide appropriate briefing in due course?

I am copying this letter to Michael Gilbertson (Department of Trade and Industry).

David Norgrove

Mrs. Christine Heald,
Home Office.

O.K.

David Norgrove

The attached is self-explanatory. Michael will be at the meeting, but I presume that you will also be there as the "official" Private Secretary. Can we leave it to you to arrange any necessary briefing?

TESSA
20.9.85

20th September 1985

This is just a note to confirm the time and date of your meeting with the Prime Minister. This is in her diary for 9.30 a.m. on Tuesday, 10th December. I look forward to seeing you then, if not before.

MICHAEL ALISON

Richard Burton Esq

Richard BURTON

Janice

For diary folder pl.
CR.

Caroline

I attach a note which Michael put in to the Prime Minister's Box in June, asking if he could bring the new Chairman of the Cable Authority in to see the Prime Minister, and to which she agreed.

Michael wrote to Mr Burton to say that the Prime Minister had agreed, that her diary was too full for the present time and that we would get in touch with him again in September.

I don't think there is any urgency for this meeting (Michael says if we could get 10 minutes in before Christmas that would be fine), but could you bring this up at the diary meeting on 16th September and let me know if you have a date and time which we can offer Mr Burton?

TESSA
4.9.85

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW482
Secretary of State for Trade and Industry

30 August 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

MAA

Dear Mark,

Thank you for your letter of 7 August. Ministers are content to proceed as the Prime Minister suggests. Mr Pattie will discuss with ITAP the Government's response to their report on cable and inform the Prime Minister of the outcome.

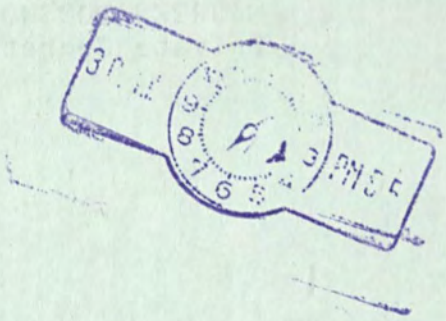
2 I am copying this letter to Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), Leigh Lewis (Office of the Minister without Portfolio) and Sir Robin Nicholson.

Yours sincerely

Maureen

MAUREEN DODSWORTH
Private Secretary

Broadcasting Pt 5
DBS



de VK4ABQ

10 DOWNING STREET

From the Private Secretary

7 August 1985

ITAP REPORT ON CABLE SYSTEMS

Your Secretary of State's minute of 26 April to the Prime Minister attached the Department's detailed comments on each of the recommendations in the ITAP Report. Subsequently, your Secretary of State wrote to the Prime Minister on 23 July recommending no further action be taken by Government in relation to the second of the ITAP recommendations, following discussions between your officials and British Telecom.

The Prime Minister has now considered how best to proceed with handling the ITAP Report. She believes the best way forward would now be for you to update the draft response to the ITAP Report as a whole both in the light of the discussion with BT and in any other way appropriate; for your Secretary of State then to send that response to the Chairman of ITAP with a suggestion that the Report and response form the basis for a discussion between your Minister of Information Technology and the panel; and that after those discussions have taken place, your Department and ITAP should consider whether a further approach to the Prime Minister was required. The Prime Minister would in any case be grateful to be informed of the outcome of those discussions.

BRT

I am coyping this letter to Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), Leigh Lewis (Office of the Minister without Portfolio) and Sir Robin Nicholson.

MARK ADDISON

John Mogg, Esq.,
Department of Trade and Industry.

E.R.

PRIME MINISTER

CABLE TELEVISION

You will remember that the ITAP Report was submitted to you in March. We subsequently sent it to DTI for their comments, and Robin Nicholson has been considering the best way forward.

The Report itself is at flag A. (summary at the back). DTI's response is at flag B. Robin Nicholson's proposals as to how we should now proceed is at flag C and Policy Unit advice at flag D.

Some of the ITAP recommendations are uncontroversial and have already been effectively implemented. The one key outstanding issue is the extent to which BT and Mercury should allow cable companies access to their ducts and overhead wiring poles, and this needs to be considered further between DTI and ITAP.

Content to accept Robin Nicholson's advice that DTI should be asked to update their draft response, and send it to the Chairman of ITAP suggesting that the Minister of State for Information and Technology and ITAP get together to discuss the Report and DTI's response?

Yes mt

Mark Addison

MARK ADDISON

6 August 1985

(B)

cc PM Aft on 12 August so I can speak to RN o/r. MMA 2/8

2 August 1985

MR ADDISON

c Sir Robin Nicholson

CABLE TELEVISION

All the responses to the ITAP Report to the Prime Minister on Cable Television have now been received. The Report's recommendations were:

1. **The Government to restate its support for the cabling of Britain.** DTI Ministers have made a series of supportive public statements.

2. **BT and Mercury to allow Cable companies access to their cable ducts and overhead wiring poles on equitable terms.** Predictably BT are not keen on this. They maintain that the Cable ventures in which they are involved operate on an arms length basis and bear their full share of the cost of the cable ducts etc. BT (reasonably) say that access to other Cable companies would only be practicable if BT retained full control of the network planning (and by presumption the actual cable laying). But BT also want control over the day-to-day operations, which is difficult to justify on economic or operational grounds. They should be pressed to withdraw this stipulation.

3. **Cable franchises should be allowed to develop their areas more gradually, provided they do not just cable the lucrative areas and leave the remainder.** This is agreed.

4. **Master Antenna Television (MATV) should be licenced.** (This allows direct reception by blocks of flats, hotels etc.) This has been implemented.

5. **Cable franchises should qualify for the Business Expansion Scheme and other forms of assistance.** Cable

is not excluded from BES but there is no case for giving them especially advantageous terms. The Chancellor has, however, made some minor amendments to this year's Finance Bill to help the tax position of, amongst other, Cable companies.

6. **The Government should fund some demonstration Cable technology projects.** DTI are happy to support this if they are given additional funds. This is probably best left such that Cable companies can apply for grants under the normal Support for Innovation Schemes but that no extra funding should be given to the DTI.

7. **The Westminster Cable Company should link up the Houses of Parliament and Government Offices into their cable network.** This can be considered when Westminster Cable produce a definitive proposal. It will need to be considered separately by the House Authorities.

Conclusions

We recommend that DTI press BT further to ensure that no wholly unreasonable terms are placed on Cable companies for using its cable ducts. Subject to this proviso, the Prime Minister could accept the ITAP recommendations qualified as above.

Peter Warry

PETER WARRY

WO589

MR ADDISON

2 August 1985

ITAP REPORT ON CABLE SYSTEMS.

We now have the Secretary of State for Trade and Industry's comment on the second recommendation of the ITAP report (your minute of 23 July) as well as his general comments and a draft reply to ITAP (your minute of 30 April) and the Home Secretary's comment on MATV systems (your minute of 13 May).

2. As you will have realised, I have had some difficulty in deciding what to recommend or where we go from here. ITAP was set up as a group of people who are immersed in the IT market. As such they tend to discount the legislative and administrative difficulties of Government. On the other hand DTI's response is largely a defence of their existing policies with little imaginative comment on ITAP's proposals. The recent DTI report of BT's reaction to the second recommendation can only be described using Mandy Rice-Davies' well-known epithet.

3. Cable is still important as a potential growth sector of the IT economy. ITAP's views should be taken seriously and are best considered in discussion with Government rather than in the public arena (for this reason ITAP deliberately did not ask for permission to publish their report).

4. Therefore my recommendation is that DTI should be asked to include their recent information on the BT matter in their draft response, to update the rest of the response if necessary and for the Secretary of State to send the response to the Chairman of ITAP with a suggestion that the report and response should form the basis for a discussion between the Minister of State for Information Technology and ITAP. I believe the Minister of State would welcome this. After the discussion DTI and ITAP could consider whether it is necessary to revert to the Prime Minister on this matter.

RBN.

SIR ROBIN NICHOLSON
Chief Scientific Adviser

Broadcasting DBS A5

SUMMARY OF ITAP CABLE REPORT

ITAP have identified that the cable industry faces considerable problems in attracting finance because of the difficulty of assessing the likely market for cable services, the size of the initial investment, the length of the payback period, the slow progress in settling licences and - above all - the low confidence in cable which now exists amongst potential backers, especially in the City. They suggest that Government should help restore confidence by a declaration of its continued commitment to cable and by a series of specific actions to back this up.

2. ITAP remain convinced of the long-term importance of interactive services on cable, but are aware that the current market demand is for non-interactive, entertainment services and suggest a number of ways in which cable operators can minimise their initial costs without prejudicing future flexibility. These include allowing cable systems to grow more gradually than at present, from one or more points within a cable franchise, to a size which may exceed the current franchise area, and licensing existing communal aerial systems (eg Master Antenna TV-MATV) to receive satellite broadcasts of programmes intended for distribution on cable systems in order to increase audiences and revenue.

3. Investment in cable needs fair competition in the cable industry and ITAP are disturbed by the status which British Telecom has achieved, both as a participant and as a source of finance. They have identified that the underground ducts and other pathways for carrying cable are major elements of national infrastructure for cable, because they represent such a high proportion of the total costs involved; thus BT enjoys an enormous commercial advantage over other cable providers because of its access to existing telephone ducts, poles, etc, which it can use for its cable operations. They strongly recommend that BT (and eventually Mercury) be required to lease space in ducts, etc, to other cable providers on reasonable terms to correct this imbalance and to encourage fairer competition.

4. ITAP also believe that DTI assistance schemes should be made more available for cable in the light of the job opportunities created by the industry (10,000 permanent jobs would result in network operation and support alone, if half of the homes in Britain were cabled). They suggest that DTI should part-fund some demonstrator applications of advanced cable technology, to show to industry, commerce and the public what is possible, and that specific assistance might be given to cable companies through the Business Expansion Scheme by allowing corporate shareholdings in cable ventures up to a limit of £0.5m.

5. As a final recommendation, to demonstrate Government awareness and interest in cable, ITAP suggest that any proposed IT facilities within the Palace of Westminster should be linked with the cable network under development in the Westminster area.

A

INFORMATION TECHNOLOGY ADVISORY PANEL

CABLE SYSTEMS : A REASSESSMENT

BACKGROUND

1. The first report by the Information Technology Advisory Panel on Cable Systems was published in February 1982.

2. This report concluded that the development of cable systems could generate considerable economic activity and would stimulate high technology industry, with consequent benefits both in the UK and for export. In particular, although the initial appeal of cable systems would be in the provision of additional entertainment services, these would eventually form the basis for wideband interactive communications between homes and businesses and would promote the development of a society rich in information and its uses.

3. The report recommended that the Government should encourage the introduction of cable systems (and also Direct Broadcasting by Satellite (DBS) which was seen as complementary), that it should set technical standards and grant licenses and that a "Cable Authority" should be set up by early 1983. The report also recommended that more co-ordination was needed to encourage the industry, both within Government (where several departments had an interest) and between Government and the private sector.

4. Following ITAP's report, the Hunt Committee examined the subject and reported in October 1982. The Government reacted swiftly to the recommendations of this report and the Prime Minister announced their backing of cable systems in December 1982. Cable systems were seen as important not only as a stimulus for the technology (which had wide applications) and the enhanced capabilities thereby produced for business and commerce, but also in its direct effects as a source of new employment in installing, operating and supporting this innovative communication medium.

5. This announcement was followed by a White Paper in April 1983 but, unfortunately, the pace began to slow and the initial euphoria surrounding this exciting new field began to evapourate. The General Election of June 1983 interrupted the progress of the Telecommunications Bill which was delayed until April 84. This in turn delayed the licensing of the eleven pilot cable franchises which were announced towards the end of 1983. The promised Cable Authority did not materialize until a year later.

6. By this time, confidence in the industry had ebbed considerably and several companies had withdrawn or reduced their commitment to cable. The legislative delays, difficulties over the terms of the franchises and licences (particularly the telecommunications licence) and, of course, the removal of capital allowances against tax in the March '84 budget, all contributed to the pessimism within the industry. More fundamentally, the Government was generally believed to have lost interest in cable and this had a major influence upon the attitudes of those involved. Last October marked a low point with Plessey-Scientific Atlanta abandoning their switch plans and Visionhire pulling out of the business, but Robert Maxwell showed his confidence in cable in the same month by acquiring the Rediffusion cable interests from B.E.T. albeit at a very attractive price.

7. In the light of concerns about lost momentum and the widespread uncertainty in the cable industry about the future, ITAP have collected evidence from those currently involved in cable in order to form a snapshot of the state of the industry and to identify areas where action might be taken by Government to improve the situation. It was originally intended that this examination of cable would be carried out within a wider study of the strategic role of Government in IT as a whole, but it quickly became apparent that the problems facing cable require urgent action and this report has therefore been produced separately. It has drawn widely on written evidence from individuals and organisations inside and outside of the cable industry and, although the short timescale over which it has been written means that it cannot pretend to be an exhaustive analysis, we feel it encompasses much of what is currently wrong with cable and where corrective measures could help to set things right.

CHANGES IN THE ENVIRONMENT FOR CABLE

8. The major problem which the cable industry faces is a loss of confidence in its viability. This attitude is now widespread and particularly affects potential investors in existing and new franchises. Since a new industry like cable has no track record with which to attract backers, the mood of scepticism which has grown up is a formidable obstacle to success. This is especially true for cable where substantial sums are required in the early stages of installation of a network. The Cable Authority have just completed a survey of organisations thought to have an interest in acquiring one of the next tranche of cable franchises. The results show that only a few feel able to proceed in the present financial climate and that most of these have not yet actually obtained the necessary backing.

9. This state of affairs can be attributed partially to the downturn in enthusiasm which often accompanies actual implementation of a new venture of this kind, but the current mood cannot be explained entirely in these terms. The reality of the financial environment for cable ventures was not always sufficiently appreciated by those who originally sought a role in the business. Some thought that cable would prove to be an easy route to big money, but the reality is that cable investments are like many other large scale projects and will only show a return in the longer term. The capital allowances issue, although significant, is only one aspect of this. Even before the last budget, the timescales for payback on the huge early investments in cable stretched farther than many investors liked. The peak financial commitments typically occur around the third year and a positive cash flow would, in any event, not have been achieved until year six or seven. This has now been delayed by several more years and, although thereafter money starts to roll in, it is often not soon enough to attract the initial support required.

10. Another factor has been the slow progress in reaching agreement on licences and establishing a Cable Authority, which has lessened confidence and generated uncertainty where it did not actually impede progress. Basing the Telecommunications Licence on the British Telecom licence delayed its availability and extended the period required for negotiation with the cable operators. There have also been difficulties over licence terms. The length of the payback period makes the 15-year licence of marginal interest to cable

operators while the technical requirements to qualify for the full 23-year licence compound the financial difficulties if expensive switching equipment has to be installed immediately. The Department of Trade and Industry recognises this problem and is attempting to ease the situation by allowing a franchise holder seeking a 23-year licence to establish a cable system initially without the capabilities for interactive services, and then to upgrade the system to the full technical standard within seven years in order to obtain the longer licence.

11. Tens of millions of pounds have already been invested in cable (£50 million in new programme services alone), but the reality is that only a few thousand homes have yet been newly cabled. Indeed, in terms of overall numbers, there are fewer customers connected to cable systems now than there were in the mid-70's. The slow progress of cable compared with earlier hopes for substantially-greater penetration by this time has further reduced confidence amongst actual and potential participants.

12. DBS has also been subject to delays and its relationship with cable has been the source of continuing dispute. Some regard one or other as the natural delivery system for particular services and foresee fierce competition for an audience. The first ITAP cable report expected a DBS service to start in 1986 and envisaged that cable would provide a distribution system for satellite broadcast entertaiment and would enlarge the available audience. Despite the delays, this broad picture of DBS and cable as complementary technologies remains valid. We expect each to find a place in the provision of non-interactive services but feel that the increased potential of cable for interactive operation will eventually be of great significance as demand for these services develops.

13. The current level of interest shown by consumers towards interactive services on cable is, however, very low and the cost of providing these services very high. It is early days, however, and the growth of demand for new entertainment services (now with over 100,000 customers) points the way for the interactive field. We believe that a significant market for such services will develop and, as discussed in our second published report "Making a Business of Information", that this market will be of increasing importance to the economy. It is therefore necessary to recognise the short-term problems associated with the provision of interactive, non-entertainment services but not to preclude

longer term opportunities by allowing cable systems to be installed without some potential for them to be eventually upgraded to full interactivity when required.

14. The lack of clear evidence concerning the eventual market for interactive services is an example of the uncertainties associated with marketing cable services generally. There have been wide disparities in approach and level of success amongst the pilot franchise cable operators, and an understanding of the special characteristics of the cable market and of the techniques best suited to attract customers in it has been slow to emerge. This remains an area of uncertainty in the cable business and contributes to the nervousness of those who might become involved. Despite this, it is clear that hopes for the eventual market (particularly for interactive and telecommunications services) is a major factor in the continued involvement of some cable operators in what they otherwise perceive as a very high risk venture.

THE WAY FORWARD

15. It is clear that the present environment for cable ventures is such that finance is extremely difficult to obtain. Many investors are unwilling to 1 provide the large amounts of capital required and it is mainly organisations like BT, with huge cash stocks and a culture accustomed to investment for long-term return, which are making much of the running. It is therefore necessary to consider what changes need to be made in order to restore confidence in cable and to ensure that cable ventures can be viable.

16. Much of the pessimism about cable is the result of uncertainties - uncertainties about the licences, the role of the Cable Authority, the market for entertainment and non-entertainment services and, particularly, the attitude of Government. The initial "green light to the cabling of Britain" is no longer seen to burn so bright. The removal of capital tax allowances, which we have already mentioned, was influential here. To some, the impression given by the change was that the Government's commitment to the cable industry, as expressed by the Department of Trade and Industry, was not shared by Chancellor of the Exchequer and this undoubtedly resulted in a loss of business confidence. A clear reaffirmation of Government commitment to cable systems is an essential first step in restoring that confidence and regaining lost momentum.

> Recommendation 1 : The Government should firmly restate its support for cabling Britain and its confidence in the future of cable systems as part of the national infrastructure.

17. Words without actions will not be sufficient, however, and it is necessary to look at ways in which the financial and other problems of the industry can be alleviated. The financial difficulties are mainly related to cash flow rather than operating profits, which in later years are likely to be very substantial. Some cable operators indicate that they will generate an operating profit after depreciation, but before interest repayments, in the first year. It is the scale of these interest repayments, due to the size of the front-end investment necessary, which causes the problem. We will look at the detail if

this under headings:

- Reducing Costs
- Deferring Expenses
- Increasing Revenues
- Providing Funds
- Boosting Confidence

Reducing Costs

18. It has been suggested in some quarters that the technical standards intended to promote the development of interactive non-entertainment services should be relaxed in order to reduce the cost of cable systems. We believe this is not a sensible option for several reasons.

a.The major part of the costs lie elsewhere than in the support of interactive services. Estimates vary, but the cost of installing the cable itself constitutes around two-thirds of the total system cost. The savings possible in the remaining areas have only marginal effects.

b. Indeed, when all costs (including operational costs) are taken into account, relaxing the technical standards may not produce an overall saving. For example,the costs associated with connecting and disconnecting customers, and with changing the services they receive, can be much higher with "low-tech" cable systems, due to higher staff costs associated with manual rather than automatic alterations. In many instances with a simple cable system, a serviceman may have to visit a customer's home to carry out alterations whereas with a more sophisticated system, the changes can be directed remotely through a computer terminal. Such continuing operational costs could more than nullify initial savings. In addition, when multiple connections to a customer's home are considered (to serve more than one TV, VCRs, etc) the more advanced switched systems can be cheaper even in installation terms.

c. Restricting the range of services which can be provided will limit the revenues available to cable operators as the market for interactive services develops. It is also undesirable that the potential benefits of

interactivity are not made available to the consumer.

19. We conclude that there is not a case for an overall reduction in technical standards, but recognise that there may well be benefits in minimising the initial costs of cable systems, providing that future flexibility is not thereby overly constrained. We consider that it is acceptable to allow cable systems to develop in this incremental fashion, providing that the initial topology of the network is suitable for eventual conversion to interactive operation and that the quality of cable, ducts, equipment housings, access ports, and so on, is such that the system can meet the eventual performance requirements.

20. A more fruitful area for cost reductions becomes apparent on closer inspection of the cable network itself. Much has been made of the potential of cable systems as an element of national infrastructure. We strongly support this view, especially in regard of telecommunications services, but the costs breakdown of cable systems which we have seen makes it apparent that the cable itself is only a small part (around 20%) of the costs involved in installing the physical cable network, and is even less when customers' equipment is taken into account. Apart from switching equipment, etc, the ducting and other pathways by which cable connects to individual homes and business premises, and the expense involved in installing these pathways, therefore constitute almost all of the costs in the system. It is these components of a cable network which truly represent the infrastructure aspect of cable systems.

21. It is consequently apparent that major advantages lie with organisations which already have access to such pathways. In particular, BT is able to employ the ducts which exist for telephone cables to accomodate wideband cable and has even in some instances replaced overhead wiring from telegraph poles to individual homes with composite wiring containing a wideband coaxial core and a telephone pair. The cost benefits conferred by this arrangement are substantial. Other cable providers will face significantly higher costs and alternatives which they develop to reduce these costs, such as running suitably armoured cables through sewers, are unlikely to redress the imbalance.

22. We therefore consider that the central importance of ducts and other pathways should be recognised and that steps should be taken to ensure that cable providers can face broadly-similar costs in this area. Although such

pathways exist for a variety of services and public utilities (such as electricity), it is those intended for telephony which are most suited for use by cable, since difficulties over interference, shock hazards, etc are minimised. We see four main options -

a. Ensure that BT (and, where appropriate, Mercury) make available on reasonable terms cable within ducts, etc, to carry cable services. We consider that this option does not go far enough in providing access to the ducts and other pathways themselves, since the cables would not be the property of the cable company.

b. Ensure that BT (and, where appropriate, Mercury) make available on reasonable terms space within ducts, etc, for the installation of cables belonging to other cable providers. We recognise the difficulties inherent in this option, but consider it to be attractive.

c. Place BT and Mercury on the same basis as other cable providers by making the ducts, etc, the responsibility of another party (Cable Authority, OFTEL). We consider that this option is impractical and overly bureaucratic.

d. Regard BT as having a natural monopoly of the ducts, etc, accept that the economics make competition by other cable providers infeasible in the longer term and allow BT to act as cable provider for all cable networks. We do not consider that this option is acceptable, since it eliminates the competitive element from cable provision and reinforces BT's control.

23. We consider the second option to be the most acceptable. BT (and Mercury) should lease duct space to other local cable providers. Where ducts are full, new ducts should be provided or existing wiring replaced or rearranged to make room. If necessary, installation and maintenance can be carried out by BT/Mercury staff to avoid wrangles over the effect on their own cabling, but the ownership must clearly lie with the cable companies. Overhead wiring should also be replaced with composite cables (as described in paragraph 21) to allow cable providers cheaper access to homes and other premises. There are clear potential legal difficulties in this approach, but the cost advantage enjoyed by BT in particular because of its marginal costs in employing telephone ducts, etc, will otherwise mean that no other cable provider is able to compete in any

area where BT chooses to provide cable. The aim must be to eliminate this cost advantage and allow all cable providers, including BT (and eventually Mercury), to compete fairly. We can identify a number of approaches to achieving such an arrangement. These, and any others which may emerge, should be examined to find a practical way to achieve this aim.

- The Director-General OFTEL might use his powers under the BT and Mercury licences, if these are adequate and relevant, to require these organisations to allow cable providers access on reasonable terms to ducts, etc. This is a desirable approach but, we understand, may not be feasible. Nevertheless, it should be explored.

- The granting of future licences to BT and Mercury to act as cable providers might be made conditional on their voluntarily agreeing to enter into an arrangement such as has been described.

- The Secretary of State for Trade and Industry might indicate to BT and Mercury that a reference to the Monopolies and Mergers Commission would be made, or might take direct action under the Competition Act himself, over the exclusion of cable providers from these pathways, on the grounds that this was anti-competitive and against the public interest.

- As a last resort, new legislation might be introduced to require BT and Mercury to allow access to cable providers.

Recommendation 2 : All necessary legal steps should be taken to ensure that BT and Mercury allow all cable providers access on reasonable and equitable terms to cable ducts, overhead wiring from poles, etc. If the powers available to the Director-General OFTEL under the BT and Mercury licences are not adequate to achieve this then other options, such as those listed above, should be explored.

Deferring Expenses

24. There is some evidence that much of the cost in cable networks depends linearly on the number of houses passed (the suggested figure of £200 to £300 per home passed given in the first ITAP cable report seems to be borne out in

practice). As a consequence, there may be opportunities to encourage cable development by allowing small networks to be installed initially and then, as the market develops, letting these grow to more conventional sizes. This will reduce the scale of investment required in the early stages of a cable venture, smooth the investment profile and allow additional capital to be attracted after initial results can be demonstrated.

25. We therefore consider that there is a need for a flexible attitude to the development of a cable franchise. The cable company should be allowed to grow the network gradually, possibly from several smaller networks within the franchise area, and to establish the appropriate mix of consumer interests within the audience to allow the various cable services to be provided economically. The size of a franchise area, or the area potentially available to a franchise holder, should be large enough to allow this audience mix to be achieved and this may well imply areas much larger than those allocated for the pilot franchises.

26. There is a need in this approach to strike the right balance between minimising the initial costs and ensuring that a full cable network providing a range of services to a natural community eventually develops. In the process, the interests of consumers not initially cabled must be recognised and care taken that desirable areas are not allowed to be "cherry picked" without any intention of further development.

> Recommendation 3 : Cable franchises should be allowed to develop gradually within constraints which avoid lucrative areas being cabled to the exclusion of the remainder of a community. This applies both within the typical cable franchise area and, where possible without conflict with consumer interests, beyond the boundary of such an area.

Increasing Revenues

27. The development of entertainment services on cable systems depends heavily on the quality of the programme material which is made available. Good and plentiful programming is expensive and the small audiences available during these early days of cable restricts the money which can be allocated for this

purpose. Programme providers have already made substantial investments in advance of the market, but need to realise a larger audience if they are to recover their costs and maintain their commitment. In order to assist them, and at the same time to develop public interest in the entertainment services (which, as we noted in our first report, are the basis on which cable systems must build), we would encourage intermediate technologies which can provide a bridge to full cable systems. In particular, Mast Antenna TV (MATV) systems should be allowed to relay the programming material now available over cable systems in order to enlarge the potential audience and increase the revenues available to the cable industry, while making more of the public aware of the possibile benefits of cable systems.

28. Where MATV installations already exist, serving either a single building or an area linked with cable in some way, licences should be granted for the use of dish antennae to receive the satellite transmissions now used by cable networks, and thus extend the range of programming available. New MATV installations should also be encouraged across the country. These limited systems should be regarded as the nuclei around which cable networks can grow. We recognise that there may be problems when the area concerned is eventually cabled, in balancing the interests of the MATV operator and the cable company, and consider that the Cable Authority should have responsibility for arranging that the MATV installation is satisfactorily connected to the cable network or is replaced by it when the need arises.

29. For both existing and new MATV installations the aim should be to encourage the development of real cable systems. There is an obvious danger that these limited installations might be constructed or extended in a way which precludes their economic extension to one-way, and eventually two-way, cable networks. The requirements for topology and quality noted in paragraph 19 should therefore apply here also, at least where any substantial new system is concerned. It is also important that the existence of MATV systems should not impede the spread of cable networks. The licences granted for the reception of the new services should therefore be only for a short period, say five years, and renewal should only apply in the absence of a cable system to which the MATV system can be satisfactorily connected or by which it can be replaced. When such a cable network is introduced, the Cable Authority should be responsible for ensuring that an acceptable settlement is negotiated between the MATV and cable companies.

Recommendation 4 : Licences should be granted for the reception of cable programmes from satellites by MATV installations, both new and developed from existing systems, and the period and terms of these licences should encourage the extension of these systems into full cable networks. Particular care should be taken that such limited installations allow an upgrade path without excessive costs. Their eventual integration into cable networks should be the responsibility of the Cable Authority.

Providing Funds

30. There are good prospects for the employment opportunities created by cable systems. Significant numbers of jobs are associated with the manufacture of the cable and associated materials and, particularly, with the installation of the systems - around 15,000 jobs over 4 or 5 years to cable half the homes in Britain. The employment created here is clearly not permanent but the staff needed to operate and support cable networks is of the same order - around 1 full-time job for every 1000 homes passed by cable. With more tham 20 million homes in the UK, only a fraction of these need be cabled before the employment created by the industry surpasses, for example, the total resulting from the inwards investment of Japanese companies in this country.

31. With such a potential benefit in mind, we believe that Government should provide some postive help for cable companies during their difficult early years. The Business Expansion Scheme provides a mechanism for Government assistance through tax relief on individual investments in new ventures. We consider that this way of encouraging outside investment should be applied to individuals or companies investing in cable ventures and that the investment limit which applies for cable should be compatible with the scale of the total investment required (a limit of around £500,000 is suggested). This possibility should be examined despite the existing arrangements for consortium tax relief which can apply to cable ventures, since it would be aimed at attracting outside capital in the form of shareholdings. It would also encourage wider investment in cable than is presently the case. Increasing participation beyond the major players at present - BT, Thorn-EMI and Robert Maxwell - would be desirable in improving competition and encouraging

entrepreneurism. To avoid abuse, the existing provisions of the BES, such as a time limit on withdrawals, should apply and the Cable Authority should have responsibility for deciding which cable companies qualify for this kind of support.

32. Another possibility would be to encourage householders to pay for part or all of the cost of cabling as a home improvement. The Building Societies appear sympathetic to adding home improvement costs to mortgages and Government might consider whether the cost of cabling a house should qualify for a home improvement grant. The Government could also assist cable companies through a loan guarantee scheme, either for cable ventures as a whole or to encourage particular aspects such as the use of the more speculative techniques for cable laying. This would again encourage wider participation in the business.

33.We regard these and other schemes to bring the costs of cabling within existing arrangements for assistance from DTI and other Departments, as worthy of active consideration by Government, in order to mitigate the high initial investments required of prospective cable companies which impede the spread of cable systems and the services which they can offer.

Recommendation 5 : Government should bring cable ventures within the scope of the Business Expansion Scheme, under the supervision of the Cable Authority, as described and should consider whether other suitable forms of assistance can be made available.

Boosting Confidence

34. As noted in paragraph 8, cable suffers currently from a crisis of confidence. It will be necessary to demonstrate that cable networks, especially those dependent on newly-developed and untried technology, can be viable in order to restore confidence amongst investors. We therefore consider that the Government should provide selective financial assistance to a small number of cable ventures willing to act as guinea-pigs in demonstrating advanced technology within their cable systems. Such demonstrators will break the closed loop which currently exists, where customers do not want interactive services

because they are not aware of what they can do and cable operators cannot justify providing these services in the absence of consumer demand. The support would concentrate on the application of the technology within cable systems, rather than on its development for which other arrangements already apply. It could follow the Alvey Programme model of 50% Government funding and 50% industry funding and need only apply to a small number of cable systems, each demonstrating a particular approach to, or aspect of, interactivity. In addition, peripheral activities such as small-scale simulations of new services might be supported to allow consumer reactions to be assessed, and to aid the industry in evaluating and meeting real market needs in this new sector.

Recommendation 6 : Government should encourage the development of cable technology by the selective funding of a limited number of demonstrator projects and associated activities.

35. A further opportunity to show Government's interest in cable exists with the proposals to provide IT facilities throughout the Palace of Westminster and the existence of a pilot cable franchise in the Westminster area. We would suggest that close attention is given to the possibility of linking any IT installation (even a pilot project) within the Houses of Parliament with the Westminster cable network. This would allow access via the network to other Government offices and establishments and would demonstrate that Parliament is in the forefront of the user community which will exploit the great potential of cable systems for communication.

Recommendation 7 : Subject to the views of the Houses of Parliament, the proposed Parliamentary IT system should be linked with the Westminster Cable network.

36. The Government's attitude to competition in the industry can have a major influence in improving confidence. We have referred to the need to place all those concerned on a similar footing with respect to cable installation costs and to the desirability of attracting a wider range of investors. In the longer term, cable offers the prospect of both improving the telecommunications

infrastructure of the UK and placing it firmly on a more competitive basis than is otherwise feasible. The role of BT in cable is therefore of paramount importance. Its current involvement, and its technical and financial strengths, provide it with a potential stranglehold on this new industry. It is clear that in a liberalised market there is only one direction for BT's market share to go and that there is no incentive for BT to operate to the advantage of a technology and an industry which will eventually attack its pre-eminent position in telecommunications. We have already made specific recommendations in areas where we consider that the Government an act to improve the environment in order to encourage competition, but would additionally suggest that this aspect of Government policy towards the cable industry is kept very much in mind throughout the months to come.

CONCLUSION

37. It will take a good deal of effort to restore the high hopes and great expectations which existed for cable in 1983. There is a spirit of realism abroad in the industry, however, and a recognition that the problems which it faces can be successfully overcome if the will is there. We feel that the effort to restore confidence will be worthwhile, because of the important part which cable systems can play in developing technology which will be useful far outside the industry itself, and in establishing a communications infrastructure upon which the nation can build in the future. Action is required of Government to achieve the right environment and some financial assistance in selected areas is necessary because of the formidable early costs which cable companies now face. We have suggested measures intended to expand the options available to cable companies in dealing with these costs and to improve the competitive environment in which these companies operate. In addition, we have examined a variety of other ideas (for example, that there should be a moratorium on the payment of rates for cable connections to homes) which we have not felt were appropriate for inclusion in a brief report of this nature, but this is not to suggest that action should necessarily be limited to the recommendations which we have made.

38. In conclusion, the chief executive of one of the pilot cable franchises has commented to us that cable is not a sickly child in need of permanent help but a healthy toddler requiring assistance in learning to walk unaided. We support this view and hope that the Government will be able to extend a helping hand to cable while it outgrows its current pains.

MEA

MR ADDISON

2 August 1985

DIRECT BROADCASTING BY SATELLITE

The Statement on DBS has now been made by written answer in the House of Lords (attached). The way has therefore been opened up for a contractor - such as Robert Maxwell or Rupert Murdoch - to provide a DBS service direct to potential viewers, but under the auspices of the IBA.

The argument about whether it must be a British satellite is not wholly resolved. Leon Brittan, (note of 26 July), properly concedes that it would be wrong to give an overseas supplier access on prices that amounted to dumping. But Norman Tebbit, (letter of 31 July), harks back to his earlier letter, which was essentially endeavouring to limit the opportunity to just British satellites.

It is probably best to let the matter rest here and hope that the ambiguity in the two Departmental positions does not deter prospective bidders, (even if they are foreign), from coming forward.

Peter Warry

PETER WARRY

[LORD PONSONBY OF SHULBREDE.]
should like very much to join with him in wishing noble Lords in all parts of the House a happy and restful holiday. I am sure that is something to which we have all been looking forward for some considerable period now.

I should also like to join with him in extending from this side of the House thanks to all the staff who have looked afer us so well: the attendants, the security staff, the restaurant staff and those who work in the bars round the House. We have all appreciated very much their ministrations to us at late hours of the night.

Of course this is a time of year when members of the staff are retiring on reaching retirement age, and I should like to extend a particular vote of thanks and good wishes to those members of the staff who are retiring at this time.

Noble Lords: Hear, hear!

Lord Ponsonby of Shulbrede: My Lords, I can assure the noble Lord, the Chief Whip that when we return on 14th October—one week before another place, dare I say?—we shall be fighting strongly to see that the Transport Bill is transformed during that first week; and that he should be prepared, I regret to say, for another long and hard-fought Session. With those remarks, I wish all your Lordships a restful and happy Recess.

Lord Tordoff: My Lords, this is the first occasion on which I have had the opportunity to join in this little ceremony, and I am very grateful to do so. I personally have been thrown in at the deep end in a year in which there has been so much activity. I am grateful, therefore, for the support of both my leader and the former Chief Whip, who are beside me at the moment, and for the help that they have given me at this time.

It was suggested by one of them—and I shall not say which; your Lordships may be able to guess—that this is probably the only Motion that the noble Lord the Chief Whip has moved this year with a reasonable chance of success. I think that we are grateful to him for, among other things, introducing so many new faces into this House.

I certainly join with the remarks which have been made so far as the staff are concerned. We have had a very busy time. It has been hard work. It has been very trying. But certainly for the staff it has been even more hard work. We have asked them to do many things beyond the call of duty; and we are extremely grateful to them. Perhaps I may mention, as a symbol of that, our new Black Rod, who has moved into position extremely smoothly. We are all grateful to him for both his own efforts and those of his staff.

Like the noble Lord, Lord Ponsonby, we look forward to the battles to come on the Transport Bill which we certainly have not yet finished with. Perhaps noble Lords on the other side had better return from their holidays sooner than they normally do!

Let us not finish on an acrimonious note. It has been an interesting—and I think important—Session for your Lordships' House. It has been the first year with television. I think that the House has aquitted itself well there. The public outside certainly has an enhanced opinion of what goes on in this place. I think that that is to the credit of all noble Lords; and indeed all the staff. Let me join in the good wishes for a calm, restful and rejuvenating Summer Recess.

Lord Denham: My Lords, I beg to move that this House do now adjourn.

Insolvency Bill [H.L.]

Bill ordered to be printed as amended by the Commons.

House adjourned for the Summer Recess at eleven minutes past three o'clock until Monday, 14th October next.

Written Answers

DIRECT BROADCASTING BY SATELLITE

Lord Morris asked Her Majesty's Government:

What action they intend to pursue in the light of the reported abandonment of the DBS joint venture project.

The Parliamentary Under-Secretary of State, Home Office (Lord Glenarthur): In bringing forward the provisions in the Cable and Broadcasting Bill last year for direct broadcasting by satellite, we explained that the Government's role was to provide the necessary legislative framework and an opportunity but that, since no public money would be involved, it would be for the potential participants to decide whether or not to proceed.

The shadow Satellite Broadcasting Board, under Lord Thomson's chairmanship, has now reported to my right honourable friend the Home Secretary the outcome of the various feasibility studies undertaken by and on behalf of the proposed joint venture consortium. The consortium believes, in the light of these studies, that direct broadcasting by satellite would not provide a viable business for them at present and it has accordingly decided not to pursue the matter further.

We are grateful to Lord Thomson and his colleagues for their work on the shadow board but since there is now no early prospect of bringing into force section 42 of the Cable and Broadcasting Act 1984, and related provisions, we are asking them to bring that work to an end.

It is, in our view, right that no public money should be put into the launch of DBS and we remain convinced that DBS should proceed only if it is judged commercially viable without public subsidy. However, the Cable and Broadcasting Act 1984 contains the necessary statutory provisions not only for joint venture DBS, under section 42, but also for DBS to be mounted by a contractor appointed by the IBA. The Government believe it right that other enterprises should now be given an opportunity to

consider mounting DBS. Accordingly we have asked the IBA to carry out a review of the prospects for launching a viable DBS project under those provisions and of the degree of current commercial interest in providing such a service. In the light of that review, and of our consideration of other ways by which satellite broadcasting might be developed, we shall decide whether to bring the relevant provisions into force.

INDEPENDENT TELEVISION: REGIONAL CHARACTER

Lord Graham of Edmonton asked Her Majesty's Government:

Whether, in any reorganisation of the financial structure of British broadcasting as a result of the Peacock inquiry into financing the BBC and the Treasury's current re-examination of the ITV Exchequer Levy, they will insist on maintaining the distinctive regional character of independent television.

Lord Glenarthur: Under the Broadcasting Act 1981, it is for the Independent Broadcasting Authority to determine the number and extent of television contract areas. I believe that the resulting regional structure has generally been regarded as valuable. It is too early to say what, if any, changes in broadcasting arrangements might follow reports by the Committee on financing the BBC and the working group of officials which recently reviewed the structure of the levy.

CONVEYANCING STANDING COMMITTEE

Lord Campbell of Alloway asked Her Majesty's Government:

What action they intend to take in respect of the primary recommendation of the Second Report of the Conveyancing Committee.

The Lord Chancellor (Lord Hailsham of Saint Marylebone): The Government accepts the recommendation of the Committee chaired by Professor Farrand that a Conveyancing Standing Committee should be established by the Law Commission to examine suggestions for the reform of conveyancing practice and law.

I have invited the Law Commission to appoint such a Committee in the immediate future to consider matters relating to conveyancing practice and procedure, to advise the Law Commission on reform of conveyancing law, and to promote changes in practice and procedure necessary to create and maintain a cheap, simple and effective conveyancing system from the point of view of buyers and sellers of land. The Committee's first objective will be to bring about within two years improvements which will be apparent to ordinary housebuyers and sellers.

WILDLIFE AND COUNTRYSIDE ACT: MANAGEMENT AGREEMENTS

Lord Melchett asked Her Majestys' Government:

Whether they will place in the Library a copy of the report on the Financial Guidelines for Management Agreements under the Wildlife and Countryside Act 1981, commissioned from the constultants Laurence Gould.

Lord Skelmersdale: We have not yet received the constultants' final report, but I shall consider whether it would be appropriate to place a copy in the Library of the House when I have had an opportunity to study it.

WILD BIRDS' HABITATS

Lord Melchett asked Her Majesty's Government:

What means are available to protect the habitats of wild bird species listed in Schedule 1 to the Wildlife and Countryside Act 1981, where these species occur at a low density over a wide area; and whether they will state whether a site comprising upland moorland and grassland with water bodies has been accorded by the Nature Conservancy Council (NCC) a threshold breeding bird community index which if exceeded requires the NCC to notify such land as a site of special scientific interest.

Lord Skelmersdale: Bird habitats generally may be protected either under the arrangements set out in section 3 of the Wildlife and Countryside Act 1981, or through notification or renotification as sites of special scientific interest under the provisions of section 28 of the Act. My answer of 15th January (*Official Report*, col. 959) summarised the criteria adopted for notification under Section 28.

No specific index has been adopted for sites comprising upland moorland and grassland with water bodies.

"RUSWROE" SEWER RENOVATION SYSTEM

Lord Winstanley asked Her Majesty's Government:

What lessons have been learnt from the experimental renovation of a sewer in Rochdale in 1982 and the Counters Creek sewer in Acton in 1984 by the "Ruswroe" process; and what opportunities are being provided for further study of this new method of relining old sewers.

Lord Skelmersdale: Appraisal of the "Ruswroe" and other sewer renovation systems is co-ordinated by the Water Research Centre. Details are not held centrally. I understand that, following an initial trial in Rochdale in 1982, a successful demonstration of the "Ruswroe" system was completed last year on the Counters Creek sewer. The WRC now consider that the "Ruswroe" system should be subjected to a monitored trial on a selected site and this is expected to commence later this year.

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

31 July 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for the
Home Department
Home Office
50 Queen Anne's Gate
LONDON
SW1H 9AT

NBPM

Dear Leon.

Thank you for your further letter of 26 July about DBS.

2 I welcome what you say about the satellite procurement question and also your intention to limit the terms of the proposed answer in the Lords in the way you suggest. I would nevertheless be grateful if you and other Home Office colleagues could emphasise the points made in my previous letter if the necessity arises either in the Lords or in response to correspondents.

3 Copies of this letter go to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nigel Lawson and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

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DBS
pt 5'

NBPM ahbustye.

QUEEN ANNE'S GATE LONDON SW1H 9AT

26th July 1985

Dear Norman,

Thank you for your further letter of 23 July about DBS.

I wonder if we are not somewhat at cross purposes. I do not myself see any need for the Government to make, or authorise, a statement at this stage about the relevant competitiveness of our satellite industry, or to offer any official comment on what comparative figures were put before the Consortium. My officials are, incidentally, endeavouring to see what information about the figures in the Warburg report they can obtain.

What in my view is essential is that if the IBA are to proceed with the study to be announced in the proposed Parliamentary answer, they, and we, must be able to state at least in general terms the basis on which that study will be conducted and on which potential applicants can make proposals.

I suggest it would be enough for us to tell the IBA that in the new situation there will be greater freedom to consider different proposals, including proposals from suppliers either in this country or overseas, but that the Government would be very concerned, as we are sure the IBA itself would be concerned, if it became clear that an overseas supplier was quoting prices which amounted to dumping in order to gain unfair access to the British DBS market. It would be for them to make this guidance available to enquirers.

I propose to arrange for a Parliamentary Question to be answered next week in the House of Lords in the terms already agreed and I hope you will, on reflection, and having regard to the views that

/the Prime Minister

The Rt Hon Norman Tebbit, MP

the Prime Minister expressed on seeing my previous letter, see no difficulty in our giving to the IBA the guidance suggested above.

I am copying this letter as before to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nigel Lawson and to Sir Robert Armstrong.

Yours,

Ian

DBS

BT // Brief P/U comments
MCA 25/7

cc NO

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DW308
Secretary of State for Trade and Industry

23 July 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for the Home Office
Home Office
50 Queen Anne's Gate
LONDON
SW1

PS/Mr Pattie
PS/Mr Butcher
PS/Sir Brian Hayes
Mr McDonald
Mr Priddle T
Mr Willott IT
Mr Niedoszyjski
Mr Nicholas SPF1
Mr Smith IT1
Mr Fawkner T

Dear Leon,

Thank you for your letter of 16 July about the next steps on DBS.

2. I must say that I find the implication that there may be as much as a 70 per cent difference between British and American satellite suppliers quite amazing, and were this to be confirmed, there would of course be no question but that we should look beyond this country for the satellites to provide this British service. However, we have not yet seen the evidence for such claims, and whilst I would accept - and we do have independent and detailed evidence on this - that a differential of 6-7 per cent is possible, figures as high as those you mention, assuming there is no element of dumping and like is being compared with like, really do go beyond all comprehension. After all, both industrial partners of the Unisat consortium have very recently proved in their bidding to Inmarsat, that their products are competitve by world standards, and our own assessment of other published contract values over a period of years bears this out.

3. Regarding the foreign content of British-made satellites, it has been our policy over the last ten years to develop our space technology in co-operation with that of our partners in Europe, and it is therefore normal for our satellites to contain 20-30 per cent foreign content. In fact to some extent at the expense of the technological hardware and within our limited budget, we have chosen to concentrate our efforts on creating the ability of British Industry to take the commercial lead and to be seen in the market place as a supplier of satellite systems. It is for this reason that this particular project is so important to the commercial aspirations of our satellite industry, with our contractors just beginning to make sales abroad. It is the flag that this British satellite system will carry that really matters, and loss of this work to a US supplier at this particular moment could be catastrophic to the prospects of our fledgling satellite industry.

4. I think therefore that we must make it clear that the broadcasters are not totally free-agents in selecting a supplier, and - most important of all - in any statement we make we must avoid implying that the Government considers that the space industry is not internationally competitive. There have been many statements in the Press, frequently inspired by US suppliers, that our industry is not competitive and we must not give this greater credibility by endorsing it ourselves. At the same time, I agree that we must not give the feeling that our Space industry will obtain the contracts if they do not propose internationally competitive prices. I suggest, therefore, that if we are asked whether there can be international competition, we should respond on the following lines.

> "Unisat were responding to a specification laid down by the broadcasters. In the new situation, there will be greater freedom to consider different proposals. The Government has always made it clear that one of the considerations it would take into account in approving a DBS system would be the industrial benefits to the UK flowing from the service as well as the benefits to the public. So far as the satellite is concerned, the Government is satisfied that we have an internationally competitive space industry, and we would expect them to be able to quote competitive international prices. Equally, I would see nothing untoward in soundings on satellite prices from suppliers in general provided that this was without prejudice at this stage to eventual bidding arrangements. We would obviously have to intervene, for example, if it became clear that a competitor was quoting prices which amounted to dumping in order to gain unfair access to the British DBS market".

Yours ever
Norman

NORMAN TEBBIT

CONFIDENTIAL

EU

10 DOWNING STREET

From the Private Secretary

SIR ROBIN NICHOLSON

ITAP REPORT ON CABLE SYSTEMS

I should be grateful for any comments you may wish to make on the Secretary of State for Trade and Industry's recent minute, a copy of which I attach.

You will recall that we have not so far submitted to the Prime Minister the DTI assessment of the ITAP review as a whole.

MARK ADDISON

23 July 1985

CONFIDENTIAL

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(23/7)

CONFIDENTIAL

PRIME MINISTER

INFORMATION TECHNOLOGY ADVISORY PANEL (ITAP) REPORT ON CABLE SYSTEMS : A REASSESSMENT

When I minuted you on 26 April with my reactions to the report by ITAP on Cable Systems I said that I had asked my officials to discuss with British Telecom the second of the Panel's recommendations. This concerned the making available of British Telecom (and Mercury) ducts and poles for the installation of cables by, or on behalf of, independent cable providers with a view to bringing down the costs of installing cable networks.

2 These discussions have taken place. Predictably these ITAP ideas have drawn a very negative response from British Telecom. They are extremely sceptical of the Panel's starting assumption that access to existing infrastructure gives them significant overall cost advantages compared with other cable system providers. This is at the heart of the matter since unless there are substantial cost benefits which are being unfairly denied to other operators, there is nothing to be gained from pursuing the ITAP proposal. British Telecom's own estimates, based on the very limited evidence currently available, suggest that this is not the case. They say this because, in the interests of effective competition, we have encouraged them to establish arm's length relationships with their cable subsidiary in relation to the provision of the network. In other words the cable subsidiary is expected to pay charges to its parent based on

JH1CQY

fully allocated costs. These charges in turn reflect cost penalties as well as advantages which arise as a result of using an existing infrastructure not developed for cable purposes.

3 A real advantage for those cable operators who are in partnership with British Telecom is that their capital exposure at the outset is significantly reduced by the fact that British Telecom are in effect acting as a banker to the project. However I see no way in which we could compel what is now a private company to take on that role more generally. The discussions that officials have had with British Telecom have confirmed the company's total unwillingness to consider any alternative to the kind of freely negotiated commercial arrangement it currently has in the context of a number of the pilot cable projects. This is because British Telecom take the view that any sharing of their infrastructure would be practicable only if they were to act as the network provider, not only installing and maintaining ducts, cables, and other apparatus, but also retaining full control of the network planning and its day-to-day operation.

4 For the reasons set out in my earlier minute I see no prospect of persuading British Telecom to adopt a different line, nor do I think that we have the powers to force them to do so.

5 As far as I am concerned, therefore, the question is whether or not to accept at face value British Telecom's assertion that the relationship with their cable subsidiary is an arm's length one and that this does not involve significant cost advantages which are denied other operators. Although I have not raised the matter with him, I have considered whether this is an issue that I should ask the

JH1CQY

Director General of Telecommunications to investigate with a view to verifying the facts. On balance I have concluded that it would not be appropriate to do so at present. We are at an early stage of cable development with, as yet, little hard evidence of the true costs of installing individual systems on which the Director could base an assessment. Furthermore I have in mind that OFTEL are currently grappling with a number of complex issues. I am not convinced, in the absence of any ability on our part to take decisive action afterwards, that this would be a worthwhile additional burden to place upon the Director at this stage. But this does not rule out the possibility of involving the Director later if, in due course, it should appear that British Telecom's arrangements are conferring cost benefits which are being unfairly denied to other operators. Indeed it is open to anyone with an interest, at any stage, to raise such a complaint with the Director who is under a duty to consider complaints unless they appear to him to be frivolous.

6 For the time being, therefore, I recommend that no further action is taken by Government in relation to the second of the ITAP recommendations but officials will be monitoring how the position develops as succeeding franchise rounds are initiated.

7 Copies of this minute go to Nigel Lawson, Leon Brittan and David Young.

NT

N T

23 July 1985

DEPARTMENT OF TRADE AND INDUSTRY JH1CQY

QUEEN ANNE'S GATE LONDON SWIH 9AT

19 July 1985

NBPM

Dear Geoffrey,

DIRECT BROADCASTING BY SATELLITE

Thank you for your minute of 15 July expressing your interest in our consideration of the next steps on DBS following the decision of the joint venture consortium not to proceed.

I readily acknowledge your considerable interest in this matter and I agree that the FCO should be actively involved in future discussions on the establishment of a UK DBS service. In fact I understand that my officials are already in touch with yours about the work to carry forward the consideration of ways in which satellite broadcasting might be developed, which is going ahead in parallel with the IBA's review of the prospects for launching a viable DBS service under Section 37 of the Cable and Broadcasting Act 1984.

I am sending copies of this letter to the Prime Minister, Norman Tebbit, Nigel Lawson and Willie Whitelaw and to Sir Robert Armstrong.

Yours,

Leon

The Rt Hon Sir Geoffrey Howe, QC, MP

Broadcasting; Direct B/casting

File

MJ2AVM

10 DOWNING STREET

18 July 1985

From the Private Secretary

Dear Hugh

DIRECT BROADCASTING BY SATELLITE

The Prime Minister has seen the further correspondence on this matter between the Home Secretary and the Secretary of State for Trade and Industry.

The Prime Minister has commented that it would not make sense to open up the market to other contractors now that the consortium has collapsed but continue to insist that they use a British satellite.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (HM Treasury), Andrew Lansley (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

Yours ever

Mark Addison

Hugh Taylor Esq
Home Office

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

You will recall you agreed that, following the collapse of the DBS consortium, the field should be opened up to any contractor, without an obligation to use UNISAT.

Norman Tebbit's letter of 11 July (Flag A) questions whether the UNISAT requirements should be dropped at this stage. The Home Secretary's clear response, that it should, is at Flag B.

Policy Unit advice is at Flag C. They strongly support the Home Secretary's view. Given that the cost of UNISAT was apparently a key factor behind the collapse of the consortium, it would not make sense to open up the market to all-comers, but continue to tie their hands behind their backs.

An intervention from you would help ensure this matter is sorted out in time for the Home Secretary to make an announcement before the Recess.

Agree that you should endorse the Home Secretary's view that the obligation to use a British satellite should now be dropped?

Yes

No

MCS

Mark Addison

16 July 1985

(C)

MR ADDISON

16 July 1985

DIRECT BROADCASTING BY SATELLITE

We strongly support the Home Secretary's reiteration that the requirement to use a British satellite should be dropped. This policy has already failed, and it is indicative of the DTI's ostrich act that they refuse to believe that the UNISAT option was 70% more expensive. All of our personal contacts bear this out.

Satellite costs are the critical factor in the early part of the DBS project, but over the whole life represent only 20% of the cost and, by implication, generate only 20% of the potential jobs. It would be folly to sacrifice the remaining 80% of potential jobs in order to pursue a high-tech dream that has already proved to be a chimera.

It is important, if any jobs are to be salvaged, that a sensible DBS policy is launched before the Recess. The Prime Minister could write endorsing Leon's stand.

Peter Warry

PETER WARRY

(B)

QUEEN ANNE'S GATE LONDON SW1H 9AT

16th July 1985

Dear Norman,

DIRECT BROADCASTING BY SATELLITE

Thank you for your letter of 11 July. I am grateful for your agreement to the general way in which I suggested we might proceed, but I am afraid I see considerable difficulties about your suggestion that we can leave the crucial question of satellite provision on one side until the IBA review is completed.

It is true that the joint venture did not in the end founder because of the difference in cost between a British and non-British satellite, but, as I said in my letter of 1 July, the consortium clearly believed that the Unisat option was considerably more expensive. When I met Lord Thomson on 26 June, he confirmed that the analysis of comparative costs by Telesat and Warburgs had concluded that, when like was compared with like, the Unisat cost was 60-70% higher than that of Britsat. Incidentally, Lord Thomson also told me that the consortium's researches showed the foreign components in the Unisat space segment were as much as 60%, which added to their puzzlement at the Government's insistence on the purchase of a British satellite. Whatever the truth of the relative costs, however, I do not see a case for seeking to insist on a British satellite in any future project. If a British satellite were 70% higher in cost, there could be no justification for such a policy. On the other hand, if the British hardware is competitive with world prices, as you say, it will have a reasonable prospect of competing well against the foreign satellite providers.

/Our insistence

The Rt Hon Norman Tebbit, MP

Our insistence, last year, on the use of a British satellite was partly a sequel to the earlier and abortive agreement that the BBC should conclude a deal with Unisat. It was also very much dependent upon the nature of the joint venture; it was, in a sense, the price the existing broadcasters were asked to pay for being granted monopoly access to the United Kingdom DBS market. Since any future project under IBA control is to be open to any applicant who wishes to provide a service, there cannot be any justification for constraining both the IBA and the applicant by seeking to insist upon British satellite provision.

Whatever the consortium may have believed, there is a public perception that the high cost of Unisat in some way influenced their decision. We need now to create the right psychological climate to bring forward those who might be able to get a UK DBS project off the ground without undue delay. If we seek to insist on a British satellite, or give the impression at the outset that we are undecided whether or not to do so, some of the potential applicants we are seeking may be dissuaded from coming forward. We may be jeopardising the prospect of many thousands of jobs in the consumer electronics and television rental sectors for the sake of a limited number of potential jobs in the space industry.

Any potential applicant is bound to ask for guidance on this matter, and I think we must therefore be in a position to tell the IBA when it starts its review that the Government will not seek to require a DBS contractor under the IBA model to use a British satellite.

/I would

I would still hope that we could answer the proposed Parliamentary Question before the end of the Session but I would be very reluctant to do so with this issue unresolved.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nigel Lawson and to Sir Robert Armstrong

Yours ever,

Ian

NB

NB3M

FCS/85/203

SECRETARY OF STATE FOR THE HOME DEPARTMENT

Direct Broadcasting by Satellite

1. Your Private Office kindly sent mine a copy of your letter of 1 July to Norman Tebbit about the future of a UK DBS Service now that the Joint Venture Consortium have decided not to pursue their involvement in the project.

2. The possible effects of these developments on our political, industrial and cultural interests in Europe are of considerable interest for me too. The French and Germans are due to begin DBS operations from 1987. Their programmes will, I understand, be receivable in the UK. Their adoption of the D2-MAC standard seems likely to have a considerable influence on other European countries' plans, with implications for the reception of British programme material and our ability to export receivers and other equipment.

3. If you have no objections,therefore, I should like the FCO to be actively involved in future discussions on the establishment of a UK DBS Service. There are, as you know, a number of satellite options, some involving European cooperation, which I feel should be fully explored.

/4.

4. I am sending copies of this letter to the Prime Minister, Norman Tebbit, Nigel Lawson and Willie Whitelaw and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign & Commonwealth Office
15 July 1985

BROADCASTING : BBS
PT 5

(A) PU cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU824

Secretary of State for Trade and Industry

PA

11 July 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for
the Home Department
Home Office
Queen Anne's Gate
London SW1

CR
cc to I/Unit.

D Leon.

DIRECT BROADCASTING BY SATELLITE

Thank you for your letter of 1 July.

I can readily agree to your proposal to invite the IBA to carry out a review of prospects for a UK DBS service, and to make an early announcement by arranged PQ as you suggest. It would, as you say, demonstrate that the Government's policy remains consistent and intact.

The collapse of interest by the consortium probably reflects no more than the fact that its particular mix of broadcasters, suppliers, satellite power and coverage was not right for a viable DBS service. There may well be others which are. The characteristics insisted upon by the consortium, led by the BBC, were particularly stringent and others may find a more commercially accceptable formula.

When the IBA report their conclusions later this year we will need to be in a position to respond to them. From my Department's point of view we will need to have a clear view of the likely industrial consequences of any alternatives since it is the benefits to be gained here which have always been a major plank of our DBS policy. We will therefore be carrying out our own investigations at official level in parallel with the IBA's review.

Whether the consortium found UNISAT considerably more expensive than the alternatives is more open to doubt. All the evidence that my Department has indicates that the price of British satellites lies within a few per cent of world values. If that is the case then I can see litle value in encouraging international competition to seek to occupy the national position in

space that we have been allocated. It would be most damaging to our newly-fledged satellite industry. What would be helpful would be to gain access to the report on comparative costs prepared for the consortium by Warburgs and to leave open for the moment a decision on whether a DBS contractor should be constrained to use a British satellite. That would not preclude the IBA from examining alternatives which incorporate some foreign components in the space segment (even in UNISAT this amounted to about 20%) but the intention to seek solutions which made a significant contribution to the UK space industry should be stressed.

I have only one small suggestion on the draft PQ which is to add the word "early" before "prospect" in the third paragraph.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, and to Sir Robert Armstrong.

Yours ever
Norman

NORMAN TEBBIT

BROADCASTING: Cable: Pt 5.

FILE DA

10 DOWNING STREET

From the Private Secretary

5 July 1985

DIRECT BROADCASTING BY SATELLITE

The Prime Minister has seen the Home Secretary's letter of 1 July to the Secretary of State for Trade and Industry. She is content with the proposals in the letter, and in particular that an early announcement should be made in the terms suggested.

I am copying this letter to Joan MacNaughton (Lord President's Office), Rachel Lomax (HM Treasury), Andrew Lansley (Department of Trade and Industry) and Richard Hatfield (Cabinet Office).

(Mark Addison)

Hugh Taylor, Esq.,
Home Office.

Shw

E.R.

PRIME MINISTER

DIRECT BROADCASTING BY SATELLITE

The Home Secretary's letter to the Secretary of State for Trade and Industry proposes that, now the DBS consortium has collapsed, the field be opened up to any contractors, without the obligation to use UNISAT. The Home Secretary's letter (Flag A) attaches a draft statement (Flag B) which he proposes to issue shortly.

The Policy Unit advice is at Flag C. They agree that the Home Secretary's recommendation is the most positive way forward from the existing mess.

Agree the Home Secretary should make a statement on the abandonment of the DBS venture; and the text of the statement at Flag B.

Duty Clerk
pp.
MARK ADDISON

4 July 1985

MR ADDISON 3 July 1985

DIRECT BROADCASTING BY SATELLITE

The DBS consortium has now collapsed and a year's lead on the competition gone. The Prime Minister predicted this in May last year, and it was obvious to all save the DTI by last Christmas. Leon Brittan is now proposing that the UNISAT monopoly should be abolished and the field opened up for all comers. A Robert Maxwell or a Rupert Murdoch would be able to put up his own satellite with IBA permission and sell directly to television watchers. **This must be right.**

In the light of the Peacock enquiry, the BBC have belatedly decided that DBS really forms no part of their business. Unfortunately, the possibility of legal action by UNISAT to recover the £50 million originally spent on behalf of the BBC remains.

The ITV franchises will now come up for renewal in 1989 instead of being extended automatically. Prospective ITV DBS consortia may indicate that they would still proceed if the DBS franchise were extended to 15 years. The Government should be prepared to consider this if definitive proposals are put forward.

The only thing emerging from this débacle are lessons for the future. Regulation and preferential monopolies should only be a last resort, not an instinctive response (particularly from a Conservative Government). DTI should be less concerned about trying to provide jobs for the space industry if the consequence is that prospectively far more jobs are lost in the television manufacturing and ground station industries.

Peter Warry

PETER WARRY

GVO

(A) MEM

QUEEN ANNE'S GATE LONDON SWIH 9AT

1 July 1985

Dear Norman,

DIRECT BROADCASTING BY SATELLITE

As you know, the proposed consortium for the joint venture DBS project, consisting of the BBC, the ITV companies and the five independents, held a plenary meeting on 13 June at which they came to a mutual agreement to abandon further work on the project. I have now received a formal notification of the outcome of that meeting from the Chairman of the shadow Satellite Broadcasting Board, Lord Thomson, with whom I held a meeting on 26 June to explore the issues further.

It is apparent that no one single factor was the cause of this decision. It seems that some members of the consortium were influenced by uncertainties created by the recent liberalisation of SMATV and direct reception from low powered satellites, by worries about the effect the Peacock Committee might have on terrestrial services, and, probably overriding both of these, an assessment following firm advice from their bankers that any satellite system, not merely the Unisat proposal, would at the present time be too expensive to hold out the chance of a viable business. Furthermore, in Lord Thomson's words, there was a general feeling that the tide upon which the project had been launched last summer had now run out. Our officials have already held a preliminary meeting, and over the next few weeks they will be taking stock of the position we have reached in our current DBS policy and reviewing the various options, as alternatives to the joint venture, for providing a UK DBS service.

One of the options that is already on the table, and to which Giles Shaw referred in a speech last March, is the scheme under section 37 of the Cable and Broadcasting Act 1984 for a DBS service provided by the IBA. Under these provisions, the IBA would let a contract to a 'DBS programme contractor', on much the same basis as it lets contracts to ITV companies for the terrestrial services. One thing we do not know at the present time is whether the failure of the joint venture project has dissipated all interest in a UK DBS service, or whether there are still organisations who have an interest in launching a DBS service, but under a different framework. I have therefore suggested to Lord Thomson that as part of the process of considering future options, the IBA might conduct a short review of the prospects for mounting a UK DBS service if these provisions of the 1984 Act were to be activated. In addition to eliciting the views of the IBA who would have to regulate such a service, this would additionally enable any commercial enterprise to express an interest and thus give us a feel for the commercial assessment of DBS in this country. It would have the further advantage of showing that, despite the collapse of the joint venture, the Government's policy - of providing opportunities for these developments if the commercial market for this is there - remains consistent and intact.

/Although as I

The Rt Hon Norman Tebbit, MP

Although as I have mentioned it appears that the joint venture felt that DBS was not sufficiently attractive commercially even if a non-British satellite were employed, it does seem that they found Unisat considerably more expensive than the alternatives. Frustration on this point may have coloured the consortium's attitude and, if the assessment was fair, it may well have lessons for our space policy, though this is primarily a matter for you. However that may be, I am sure that in canvassing opinion the IBA should be free to make it clear that there is no intention to require a DBS contractor under the IBA model to use Unisat or a British satellite. I hope you would not dissent from that.

If you see no difficulty in pursuing this course, I would propose, so as not to lose momentum, to make an early announcement in the terms of the enclosed draft Parliamentary Question and Answer. I should be grateful to know your views within the next few days.

I am copying this letter to the Prime Minister, Nigel Lawson and Willie Whitelaw and to Sir Robert Armstrong.

Yours,

Leon

(B)

DRAFT ARRANGED PARLIAMENTARY QUESTION

To ask the Secretary of State for the Home Department, what action he intends to pursue in the light of the reported abandonment of the DBS joint venture project, and if he will make a statement.

DRAFT REPLY

In bringing forward the provisions in the Cable and Broadcasting Bill last year for direct broadcasting by satellite, I explained that the Government's role was to provide the necessary legislative framework and an opportunity but that, since no public money would be involved, it would be for the potential participants to decide whether or not to proceed.

The shadow Satellite Broadcasting Board, under Lord Thomson's Chairmanship, has now reported to me the outcome of the various feasibility studies undertaken by and on behalf of the proposed joint venture consortium. The consortium believes, in the light of these studies, that direct broadcasting by satellite would not provide a viable business for them at present and it has accordingly decided not to pursue the matter further.

I am grateful to Lord Thomson and his colleagues for their work on the shadow Board but since there is now no prospect of bringing into force section 42 of the Cable and Broadcasting Act 1984, and related provisions, I am asking them to bring that work to an end.

It is, in my view, right that no public money should be put into the launch of DBS and I remain convinced that DBS should proceed only if it is judged commercially viable without public subsidy. However, the Cable and Broadcasting Act 1984 contains the necessary statutory provisions not only for joint venture DBS, under section 42, but also for DBS to be mounted by a contractor under the aegis of the IBA. The Government believe it right that other enterprises should now be given an opportunity to consider mounting DBS. Accordingly I have

asked the IBA to carry out a review of the prospects for launching a viable DBS project under those provisions and of the degree of current commercial interest in providing such a service. In the light of that review, and of my consideration of other ways by which satellite broadcasting might be developed, I shall decide whether to bring the relevant provisions into force.

bc. Mr. Warry

10 DOWNING STREET

From the Private Secretary

SIR ROBIN NICHOLSON

DIRECT BROADCASTING BY SATELLITE

I should be grateful for any urgent comments you might wish to make on the attached letter from the Home Secretary.

RN's office:

Only comment is that Unisat was more expensive so that its breakeven point was higher than the alternative. Unisat itself was willing to lower the price, but it proved to be uneconomic at that level.

CST

MEA

1 July, 1985.

MEA 4/7

P2.41

NBPM
BT
17/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

14 June 1985

The Rt Hon Norman Tebbit MP
Secretary of State for
Trade and Industry
Department of Trade and Industry
1 Victoria Street
London SW1H QET

Dear Norman

CABLE INDUSTRY: CONSORTIUM RELIEF

I apologise for not having replied earlier to your letter of 14 May.

Having reviewed the matter carefully in the light of your letter, I agree that it would now be right to proceed in this year's Finance Bill to introduce the two changes to consortium relief referred to in paragraph 5 of your letter. In addition to helping the cable TV industry, this will meet representations we have had on these points from others, including the General Council of British Shipping and the Equipment Leasing Association.

In order to achieve these two relaxations, some new rules and some tidying up of certain existing rules will be needed so as to ensure that no more nor less than the right amount of relief in total is given. In order to avoid undue legislative and administrative complexity, I also propose that, in certain circumstances, these relaxations should only apply where the companies concerned are in group/consortium relationship throughout the accounting period in question.

I intend to introduce these changes at Report Stage, which will be reached at the beginning of July. As it happens, however, there are two back bench New Clauses covering much the same area (although technically defective) that have been tabled in Standing Committee, and that are likely to be selected for debate on Tuesday, 18 June. We shall, therefore, use that occasion to announce what we intend. There will also be an Inland Revenue Press Notice the following day drawing attention to this.

I am copying this letter to the Prime Minister.

Yours
Nigel

NIGEL LAWSON

Broadcasting; DBS; Pt 5

CC/NO

W0396

MR ADDISON - NO 10

14 May 1985

INFORMATION TECHNOLOGY ADVISORY PANEL - REPORT ON CABLE SYSTEMS.

I had expected to see a copy of the Secretary of State for Trade and Industry's reactions to the ITAP report which, as you mentioned in your minute of 30 April, has now been completed. However, this has not yet been made available to me and I therefore have difficulty in commenting on your minute. Perhaps you could forward me a copy of the document received in No.10 so that I can advise on the handling.

pp SIR ROBIN NICHOLSON
Chief Scientific Adviser

CF
Pl send this RN & copy of the DTI minute + attachment.

MCA 15/5

CF
PL ~~bf~~ on 28/5.

Broadcasting Pts
DBS

010

RESTRICTED

CC ~~NO~~

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

14 May 1985

B/F with Sir Robin Nicholson's response on X over leaf.

AT 15/5

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear Nigel,

CABLE INDUSTRY : CONSORTIUM RELIEF

I am becoming increasingly concerned about the ability of the 'independent' cable operators to raise the finance necessary to fund their cable franchise proposals. If the 'independents' fall by the wayside we will be left with the development of the industry only in the hands of the large operators, such as BT, Rediffusion and Thorn EMI, with what that implies for reduced competition and customer service. It is an outcome that we should avoid if at all possible.

2 Our policy has always been that the cable industry should be privately financed, without special public financial support. That must remain our position. The attractiveness of investment in cable was undoubtedly substantially reduced by the phasing out of accelerated capital allowances announced in last year's Budget: but the main problem now facing the 'independent' operators is that they are at a substantial disadvantage compared with the large integrated groups. The latter can at least offset the lower revised taxable losses of their cable subsidiaries in the early years by way of group relief against the profits of the rest of their business; so yielding a still reasonable, if not spectacular, commercial rate of return. To achieve a comparable rate of return to the large operators and so offer serious competition, the independents, who do not have profits against which to set early losses, have to find a way of passing on the tax losses in the early years to their equity investors.

3 In response to representations my officials have been encouraging the independents and their financial advisers to consider the use of consortia. You agreed in last year's Budget to relax the conditions of consortium relief with the cable industry

JH5BBF

991-1

principally in mind. The increase in the minimum number of consortium numbers and the inclusion of overseas members have proved very useful to the cable industry. But it has become clear that for the cable 'independents' some serious drawbacks to consortium relief remain.

4 The problems arise because shares in a consortium company must not be held as a trading asset of the claimant company. Financial institutions, which in these cases would be the predominant consortium members, are taxed as share dealers and would therefore have to invest in the consortia via investment companies. While there would be no difficulty in setting up specific investment company subsidiaries for the purpose there are significant tax disadvantages compared with group relief from which the large operators can benefit.

5 To remove this bias I believe that two amendments will be required to the consortium relief rules:

- amendment to S.258(2) ICTA 1970 to allow a consortium member's share of consortium relief to be surrendered to other members of a consortium member's group;

- amendment to S.263(5) ICTA 1970 to allow losses of a consortium member to be offset partly against its share of the consortium profits and partly against the profits of other companies within the group.

6 We have advocated these changes over the last few years within the Revenue's review of group relief. The issue is now particularly pressing and I hope that you will be able to agree to these amendments, to redress the balance against the 'independent' cable operators.

7 I appreciate that these amendments will require complex and lengthy legislation if the possibility of tax avoidance is to be prevented. If it is not possible at this late stage to draft the legislation in time for this year's Finance Act, a public commitment this year to legislate in the 1986 Finance Act would be a less desirable but still satisfactory way round the problem.

8 In view of our strong support for cable and the recent report by the Prime Minister's Information Technology Advisory panel, which urged the Government to find ways of encouraging the development of cable. I do hope that you feel able to help.

9. I am copying this letter to the Prime Minister.

Yours ever,

Norman

NORMAN TEBBIT

JH5BBF

CONFIDENTIAL

to

10 DOWNING STREET

From the Private Secretary

Sir Robin Nicholson

Information Technology Advisory Panel
Report on Cable Systems

Further to my note of 30 April, we have now received the attached minute from the Home Secretary.

I note the Home Secretary talks of making an announcement about the future licensing of MATV systems in a fortnight. We ought to have a word about how this would affect the overall timetable for responding to the panel's report.

MA

Robin Nicholson

(i) Happy for H/S to go ahead with announcement on MATV. No need for action on our part.

(ii) RN will let us have a draft letter for the PM to send ITAP chairman, to write in the DTI/HO response.

MCA 21/5

13 May, 1985.

Prime Minister

INFORMATION TECHNOLOGY ADVISORY PANEL (ITAP) REPORT ON CABLE SYSTEMS: A RE-ASSESSMENT

I have now seen Norman Tebbit's minute to you of 26 April setting out his Department's response to the recommendations of the ITAP Report on cable systems.

As Norman says, most of the recommendations fall to his Department and I am entirely in agreement with the general lines of his response. My Department has a part to play in relation to the first recommendation which concerns a public restatement of the Government's commitment to the cable industry. In his speech to the Financial Times Conference on Satellite and Cable on 19 March, Giles Shaw made it clear that the Government's support and confidence in cable remained as strong as ever; and we shall continue to take the opportunity of future Ministerial speeches to complement the public statements by Ministers from the Department of Trade and Industry. Both our Departments have been working closely in recent months towards a statement on the future licensing of MATV systems (Recommendation 4) and, with Geoffrey Pattie, I have recently discussed with the shadow Satellite Broadcasting Board the implications of a relaxation in these rules for the proposed service of direct broadcasting by satellite. It now appears that we should be in a position to make an announcement on these matters in about a fortnight's time.

/I agree with

I agree with Norman that the Report does not offer any radical proposals which will resolve the current problems of the cable industry over night. Nevertheless, the Panel's recent statement of their own support for cable, and the Government's response, should serve to make some contribution to the slight improvement in confidence in the industry that we have noted this year.

Copies of this minute go to Norman Tebbit, Nigel Lawson and David Young.

L.B.

13 May 1985

BROADCASTING : DBS

P45

FILE

R07

10 DOWNING STREET

From the Private Secretary

CONFIDENTIAL

SIR ROBIN NICHOLSON

CABINET OFFICE

INFORMATION TECHNOLOGY ADVISORY PANEL (ITAP)

REPORT ON CABLE SYSTEMS:A RE-ASSESSMENT

The Secretary of State for Trade and Industry has now reported with his considered reactions to the ITAP Report. No doubt we can expect others to chip in. His reply is I think more luke-warm than your earlier reaction to the Report.

I should be grateful for a word next week on how we should take this forward.

MCA

30 April 1985

SMA

CC NO

cc Sir R Nicholson

PRIME MINISTER

INFORMATION TECHNOLOGY ADVISORY PANEL (ITAP) REPORT ON CABLE SYSTEMS : A RE-ASSESSMENT

I have now had an opportunity to consider the report by ITAP on Cable Systems which was circulated under cover of your Private Secretary's letter of 13 March. Most of the report's recommendations fall to this Department to respond to and I am enclosing with this minute a note setting out some detailed comments on each of the Recommendations.

2 At the more general level, the report is welcome in that the Panel have reaffirmed the view expressed in their first report in 1982 that the cabling of Britain should bring with it significant opportunities for increased economic activity, employment and improved communications. The development of the Government's cable policy over the last three years was to a large extent inspired by ITAP's first report and it is reassuring that despite the industry's recent set-backs, the Panel still have faith in cable's ability to deliver these benefits.

3 Turning to the report's Recommendations, I am bound to say that the Panel have not in my view come up with any proposals which would dramatically change the fortunes of the industry overnight. In some cases the Panel's recommendations propose action that is already in hand. For example, Geoffrey Pattie and John Butcher have recently been emphasising, in line with the Panel's first recommendation, the Government's commitment to the cable industry and, in the coming months, we will continue to press home this message.

JH5AZA

Similarly I wrote on 25 March to Leon Brittan, in the context of Recommendation 4, proposing a relaxation of the rules governing Master Antenna Television (MATV) on the grounds that an expansion of smaller systems of this kind will open up new opportunities for programme providers, cable operators and equipment manufacturers. I hope therefore that it will be possible to respond favourably to the Panel's proposals in this area.

4 The remaining recommendations of the report are much more difficult to accept. One of the Panel's main conclusions is that the cable industry will not be able to realise its potential unless some financial assistance is made available by Government to help cable operators sustain the high level of start-up costs. The Government's policy has always been that the cable industry should be privately financed and the White Paper on Cable Systems and Services of April 1983 deliberately rejected the view that the costs of cabling Britain should be covered in whole or in part by increased public expenditure. I have considerable difficulty,therefore, in accepting the proposals, contained in paragraphs 31-33, for providing cable operators with increased levels of Government funding. While it is claimed in paragraph 33 that the objective is to bring the costs of cabling within "existing arrangements from DTI and other Departments", the proposed changes to the BES, for example, would in fact amount to the creation of a new scheme for the cable industry with all that this would entail in terms of increased public expenditure and the creation of a new form of fiscal distortion. Of the schemes put forward by the Panel for improving the financial climate for cable, I therefore greatly prefer that contained in Recommendation 6 where it is suggested that Government should fund a limited number of demonstrator projects. This proposal could be

JH5AZA

followed up under the revised arrangements for Support for Innovation which, as you know, will place increased emphasis on projects that benefit industry as a whole. However, while my Department will be looking to provide such support, particularly for the development of interactive services, it is doubtful whether the Department's budget for SFI will be sufficiently large to enable us to make available the level of funding which the Panel are envisaging.

5 The final proposal in the report on which I would like to comment separately is Recommendation 2 which relates to the making available of BT (and Mercury) ducts and poles for the installation of cables. The idea has considerable attractions in that it would undoubtedly give immediate encouragement to independent cable providers and would also help to reassure those who are concerned about the effect of the major street works that are a necessary part of installing a system from scratch. But there are significant obstacles to achieving what ITAP propose and I think we must be wary of assuming, as the report appears to do, that access to the existing infrastructure owned by BT would be a panacea - Mercury's is insignificant for the purposes of cable.

6 The ability to install more overhead cable would certainly reduce costs in some areas where BT's existing distribution is by means of poles. We must recognise, however, that the commercial arrangements BT have made with the pilot franchise holders with which it is involved reflect its position as an investor in the particular cable systems concerned. This investment takes the form of paying for the installation of the system, the use of which is then leased to the company operating the cable system, a company in which BT's own cable subsidiary has a minority interest. This "banking" role is one we could not expect BT to take on in

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relation to all cable systems. Nor, for the reasons given in the report, would we want to encourage BT to become in effect the common carrier for cable. Thus the "reasonable and equitable terms" for permitting access to ducts etc would have to reflect the fact that a pathway was being provided for a potential competitor to BT in the provision of the whole range of telecommunication services and that their normal network renewal and development programmes were being distorted in response to the requirements of cable operators. Given these uncertainties I do not think it is possible accurately to quantify the cost reductions that would occur if ITAP's recommendations were put into practice.

7 I am bound to emphasise these constraints because the ITAP proposals would come as most unwelcome news to the Board of British Telecom. They would rightly respond that the prospectus, on the basis of which the flotation took place, made no reference to any possible development of this kind. They would also be bound to draw attention to the fact that the company's network of ducts and poles is arguably its most important asset. In my view, our freedom of action in this area is severely circumscribed by the assumptions underlying the statements made in relation to the flotation.

8 We must also recognise that legal powers are by no means as wide as paragraph 23 of the report suggests. I suspect that the Panel have failed to recognise that the structure of both the Telecommunications Act and the Competition Act severely limits the ability of Ministers themselves to take action. There are no provisions in the BT and Mercury licences for their main public telecommunication system which would give the Director General of Telecommunications (OFTEL)

JH5AZA

a lever with which to insist that cable providers were allowed access to ducts etc. He could propose a modification of the conditions of those licences which, subject to further consideration, might help to achieve that result, but on the assumption that BT resisted his proposal, the matter would have to be referred to the Monopolies and Mergers Commission. And as far as the Director General is concerned, it is worth remarking that I have no powers to set this train of events in motion. The Director is an independent creature of statute and all I could do would be to draw the issue to his attention.

9 A similar difficulty arises in relation to the Competition Act where an investigation into restrictions on BT's use of its ducts would rely on the Director and his counterpart, the Director General of Fair Trading (who have joint jurisdiction in relation to that legislation as it affects telecommunications) deciding that such an investigation should be mounted. I would add a further qualification in this context because the anti-competitive effects which are referred to in paragraph 23 of the report are not clear cut. The Cable Authority has said that it does not envisage awarding more than one franchise for the provision of cable programme services over a broadband system in any one area for the foreseeable future. Whilst there may be more than one applicant for a particular franchise, our criteria would not give preference to a BT-led proposal simply because it was less costly. It is not clear, therefore, whether such action by BT could fairly be described as squeezing out the competition in any one area and whether a refusal by BT to make its ducts etc available would constitute a "course of conduct" in relation to which action could be taken under the Competition Act.

JH5AZA

10 It seems to me, therefore, that the only realistic option is to consider whether we can use our ability to withhold new licences to persuade BT to co-operate. (As far as Mercury is concerned the threat of withholding cable licences would be of no concern since they do not currently conceive of their role in cable as that of cable provider). Even doing that would, as I have indicated, be to step into a minefield. The negotiations with BT over the terms of the telecommunications licence that is to apply in relation to the pilot projects with which the company is involved (the terms of which are designed to safeguard the competitive environment) revealed that BT were quite prepared to walk away from cable altogether if our terms were unacceptable. However meritorious ITAP's proposal I am sure that in the light of the present fragile state of confidence in cable a departure by BT would be more damaging than the status quo.

11 Despite these qualifications I do not think that we should ignore the recommendation and I have asked my officials to approach BT to find out what steps they might be prepared to take to respond positively to the report. For this reason I have not included in the attachment to this letter a formal response to the second recommendation. I have asked officials to report to me after they have ascertained the preliminary reactions of BT and I shall then consider how we should proceed.

12 Copies of this minute and attachment go to Nigel Lawson, Leon Brittan and David Young.

NT

NT

26 April 1985

JH5AZA

Department of Trade and Industry

DRAFT

DEPARTMENT OF TRADE AND INDUSTRY RESPONSE TO THE ITAP REPORT "CABLE SYSTEMS : A RE-ASSESSMENT"

General

1 The main conclusion of the ITAP report is that confidence in the financial viability of cable has now deteriorated to the point where Government must take corrective action to prevent the cable industry from failing to take advantage of the commercial and industrial opportunities which ITAP identified in their first report in 1982. ITAP take the view that this downturn in confidence has been caused by a variety of factors, notably the decision in 1984 to phase out capital allowances, the slow progress in reaching agreement on the licences for the pilot cable systems, a weakening of Government commitment to the industry and uncertainties about the level of demand for interactive services. ITAP's package of measures is designed to restore the confidence of potential investors in cable and so pave the way to the creation of a national network of advanced cable systems capable of offering a wide range of interactive services.

2 There is much in the report which the Department of Trade and Industry supports. In contrast to some sections of the cable industry, ITAP remain fully committed to the policy of using cable as a vehicle for introducing new forms of interactive service in both the domestic and business sectors. Their analysis in paragraphs 18 and 19 is a powerful case against those in the industry who argue that the present difficulties faced by cable operators will inevitably result in a

reduction in the quality of the technology. We also welcome ITAP's endorsement at paragraph 10 of the report of the Department's flexible approach towards the timetable for upgrading systems to full interactivity.

3 However, even allowing for the short timescale in which ITAP completed its work, it has to be said that much of the report is a considerable disappointment. There is a misguided but perhaps understandable tendency to blame all of cable's current difficulties on Government. One important contributory factor to the industry's problems which ITAP fails to mention are the problems experienced by the equipment manufacturers in producing the switches that will be required for the more advanced cable networks: the delays and increases in price have caused cable operators considerable difficulty. The report also ignores the significant steps that Government has taken to promote the development of cable. These include the decision earlier this year to include cable as a qualifying activity for regional development grants, the extension by three years of the length of the telecommunications licence out of recognition of the difficulties caused by the phasing out of capital allowances, and the significant levels of financial support that the Department has already provided equipment manufacturers under the Support for Innovation programme. However, the Department's main concern is that the recommendations which ITAP put forward are, with a few exceptions, unlikely to achieve their intended result. The following paragraphs provide a response to each of the seven recommendations contained in the report.

RECOMMENDATION 1 : The Government should firmly restate its support for cabling Britain and its confidence in the future of cable systems as part of the national infrastructure

4 Mr Pattie has already made some positive public statements about the future of cable following visits to Swindon and Bolton. Mr Butcher will be making a major speech on communication technologies at a Royal Television Society Conference on 16 April and this will provide a further opportunity to put across the message that the Government fully supports the cabling of Britain. However as the report acknowledges, little would be achieved if Ministers were to make a series of over-optimistic statements that were not supported by the facts. The approach, therefore, that we intend to adopt is to link such statements, wherever possible, with the positive developments on cable that are expected in the coming months.

RECOMMENDATION 2 : All necessary legal steps should be taken to ensure that BT and Mercury allow all cable providers access on reasonable and equitable terms to cable ducts, overhead wiring from poles, etc. If the powers available to the Director-General OFTEL under the BT and Mercury licences are not adequate to achieve this then other options ... should be explored

5 Further consideration is being given to this recommendation.

RECOMMENDATION 3 : Cable franchises should be allowed to develop gradually within constraints which avoid lucrative areas being cabled to the exclusion of the remainder of the community. This applies both within

the typical cable franchise area and, where possible without conflict with consumer interests, beyond the boundary of such an area

6 The draft telecommunications licence which the Department has recently agreed with the Cable Television Association already permits the type of flexible construction programme which ITAP envisages in this recommendation. Condition 1 of the licence includes a timetable for the installation of the system couched in terms of the number of premises passed by particular dates. The approach that has been adopted gives the cable operator complete freedom to choose which parts of his franchise area to cable first. The Office of Telecommunications (OFTEL), who will be monitoring the installation, will need to be satisfied that adequate progress is being made towards the final objective of cabling the whole area by reference to the stated milestones. The Director General OFTEL will have the power to agree changes in the milestones (but not the final completion date) without the need to go through the formal process of modifying the licence condition itself under the procedures set out in the Telecommunications Act 1984.

7 What this means in practice is that the cable operator will have complete freedom to determine the order in which he constructs his cable system but will be under an obligation to ensure that the whole of the licence area is cabled by the end of the installation period. This latter obligation is to avoid the possibility, which ITAP rejects as being undesirable, of the lucrative parts of a licence area being cabled up to the exclusion of the other areas.

8 ITAP also recommends that the cable operator should be allowed some flexibility in extending the cable system beyond the original licence area. This is a matter for the Cable Authority who have already indicated that they are prepared to consider applications for extensions.

RECOMMENDATION 4 : Licences should be granted for the reception of cable programmes from satellites by MATV installations, both new and developed from existing systems, and the period and terms of these licences should encourage the extension of cable systems into full cable networks

9 DTI believes that a carefully controlled expansion of Master Antenna Television (MATV) will be beneficial to the cable industry by providing it with an early source of revenue, increasing the potential audience for programme services delivered from low-powered satellites and opening up new opportunities for equipment manufacturers. The policy which the Department has been developing envisages MATV systems being licensed in a way which does not prejudice the subsequent upgrading of those systems into full cable networks. The Department's approach is therefore consistent with that advocated by ITAP in paragraphs 28 and 29 of the report.

10 The Secretary of State for Trade and Industry has recently written to the Home Secretary (see Annex 1) proposing a relaxation in the rules governing both MATV and individual direct reception of programme services from low-powered satellites. Changes in both these areas could have implications for the prospects of Direct Broadcasting by Satellite and before any public announcement can be made, it will be necessary to consult with the Shadow Satellite Broadcasting Board.

RECOMMENDATION 5 : Government should bring cable ventures within the scope of the Business Expansion Scheme, under the supervision of the Cable Authority, and should consider whether other suitable forms of assistance can be made available

11 Contrary to the impression given in the report, cable is not currently excluded from the Business Expansion Scheme since individuals can quality for relief on investments of up to £40,000 in cable ventures. The Panel's recommendation that companies investing in cable should also qualify for relief on investments of up to £500,000 is open to a number of objections. First, to extend the scheme in this way would have significant public expenditure implications. Companies wishing to invest in areas other than cable would press for similar treatment and these claims would be difficult to resist, particularly in relation to other forms of telecommunication system such as the BT and Mercury networks. The cost to the Exchequer of even a limited extension would therefore be considerable and would be difficult to justify against the background of the Government's cable policy, which has always been that cable development should be private sector financed. A second objection to the recommendation is that the extension of BES to corporate investment would act as a fiscal distortion to investment decisions and would be inconsistent with the Chancellor's objective of seeking to minimise such distortions. The extension would also be incompatible with one of the primary objectives of the BES itself, which has been to encourage a wider share ownership through attracting individuals to invest in companies. Finally if companies were permitted to qualify for BES relief, problems of tax avoidance could also arise with some investments qualifying for relief twice. All these considerations point towards rejecting the Panel's proposal, particularly when the existing

consortium relief arrangements already effectively give relief to companies investing in cable operations.

12 The Panel's remaining proposals in this section are equally difficult to justify. The existing Loan Guarantee Scheme only extends to loans of up to £75,000 and is therefore inappropriate in the context of cable. But setting up a new scheme to cover all the costs of a cable system would be open to the same objections as those which apply to the BES proposal. The Panel's third suggestion - that the installation of cable systems should qualify for home improvement grants - falls within the responsibilities of the Department of the Environment. However, we understand that these grants are intended primarily to encourage the improvement and repair of older, sub-standard properties. To extend the scheme to cover the cost of cabling would therefore be inconsistent with its objectives.

RECOMMENDATION 6 : Government should encourage the development of cable technology by the selective funding of a limited number of demonstrator projects

13 The Department agrees with ITAP that selective funding, in the form of a limited number of demonstrator projects, will be required to encourage cable operators to experiment with new forms of interactive service making use of advanced technology. The Department is therefore considering whether it will be possible to include within the revised arrangements for Support for Innovation an allocation to cover this form of funding. However, even if such an allocation can be made, it is doubtful whether the level of support that will be sought could be accommodated within the Department's overall

allocation for SFI without having to introduce unacceptable cuts elsewhere.

RECOMMENDATION 7 : Subject to the views of the House of Parliament, the proposed Parliamentary IT system should be linked with the Westminster Cable network

14 The idea of linking Government offices in Whitehall and the Houses of Parliament with a broadband cable network has been raised by Westminster Cable Company with this Department and with the House Authorities. There has been active discussion of the idea and we have invited Westminster Cable to put a specific proposal to us. This has not yet been received.

15 Ultimately, of course, any decision on the implementation of such a proposal is for the House Authorities and the CCTA. The CCTA are currently undertaking their own study of the non-voice communications needs of Government Departments as a whole with a view to providing an integrated voice and non-voice services network across Government.

BROADCASTING

PT 5 DBS

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF7883

Secretary of State for Trade and Industry

PS/

25 March 1985

cc Sir Robin Nicholson
Jenkins,
Ker reh to me pl.

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Await main response. NBPM
Ch'stge

Dear Mark,

ITAP REASSESSMENT OF CABLE

Thank you for your letter of 13 March. I will be in a position to let you have a full response when copies of ITAP's final report have been received here and considered by the Secretary of State and his colleagues.

2 The Secretary of State has considered the Prime Minister's suggestion that he might take the opportunity of his Budget Debate speech to reaffirm the Government's support for the re-cabling of Britain, but has decided not to do so. The industry suffered a setback in last year's Budget when full first year capital tax allowances were withdrawn and is looking for other ways of compensating for those losses. In the absence of any such tangible relief it would seem preferable to avoid any specific reference to cable on that occasion. Ministers here are, however, conscious of the need to reaffirm their commitment and are taking opportunities as they arise to do so. Mr Pattie's recent speech in Swindon was an example of this (I attach a copy of the Press Notice issued on that occasion). There would appear to be a slight upturn in confidence in cable already.

3 The size of the pilot project areas is not believed to be a contributory factor to the reduction of interest in cable. The average popoulation covered by areas in the pilots was 104,000. In response to the Cable Authority's recent invitation for further franchises the average was

991-1

117,000. A major factor for cable investors is the very large capital investment required in the early days before revenues are received. The larger the area the higher the investment needed.

4 I am copying this letter to Rachel Lomax (HM Treasury), Hugh Taylor (Home Office) and Leigh Lewis (Office of the Minister without Portfolio).

Yours ever,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Press Notice

Department of Trade and Industry

1 Victoria Street, SW1H 0ET Press Office: 01-215 3794
Out of hours: 01-215 7877

Ref: 113
1 March 1985

1985, THE YEAR OF OPPORTUNITY FOR CABLE TV: MINISTER PRAISES SWINDON CABLE

"At Swindon Cable, Thorn EMI are showing how quickly the potential of the cable revolution can be translated into reality," said Mr Geoffrey Pattie, Minister of State for Industry and Information Technology.

Mr Pattie was on a visit to the West Country, which included opening the second software fair at Dauntsey's School, Devizes, and meeting people at Swindon Cable and Logica VTS.

"Swindon Cable is the first cable operator to offer new services on a wideband cable system and they have just scored another first with the introduction of a French TV Channel, TV5, to their choice of programmes," said Mr Pattie. "All this suggests that 1985 will be the year of opportunity for Cable TV."

"There have, of course, been setbacks but Swindon Cable, and others like them, have demonstrated that these can be overcome. I believe that the cable industry can make a very positive contribution to the prosperity of this country. Cable means investment in new technology and new jobs. It will give this country an advanced broadband communications infrastructure offering not only entertainment but also new interactive services for businesses and domestic customers. That is why the Government attaches a high priority to the success of this industry.

MORE/....

BROADCASTING & DBS pt 5

"We have always taken the view that cable is an industry which should be privately financed but that does not mean that the Government does not have a significant role to play in the future of this industry. We have already created the right legal framework for cable and the Cable Authority is now actively in business with its announcement of the first five areas for which it is seeking new applications. The Government believes that significant opportunities are there and it is heartening that companies like Swindon Cable are now beginning to exploit them".

Notes to Editors

1 Swindon Cable, a wholly owned subsidiary of Thorn EMI Cable Television Ltd, is one of the eleven pilot projects, announced by the Home Secretary in November 1983. The other pilot projects are:-

Aberdeen Cable Services	Aberdeen
Cabletel Communications Ltd	Ealing
Clyde Cablevision Ltd	North Glasgow
Coventry Cable Ltd	Coventry
Croydon Cable Television Ltd	Croydon
Merseyside Cablevision Ltd	South Liverpool
British Cable Services Ltd	Guildford
Ulster Cablevision Ltd	Belfast
Westminster Cable Company Ltd	City of Westminster
Windsor Television Ltd	Windsor, Slough, Maidenhead

2 The Cable Authority assumed its licensing powers on 1 January 1985. The five areas for which it is seeking franchise applications are:

Bolton
Wandsworth
Tower Hamlets & Newham
Cheltenham and Gloucester
West Surrey

be Sir R. Nicholson
MT2AEX

10 DOWNING STREET

From the Private Secretary

13 March 1985

Dear Callum

The Prime Minister has received the report of the Information Technology Advisory Panel (ITAP) on Cable Systems: A Re-Assessment. She has noted that the Panel has reaffirmed its view first stated in its report of February 1982, Cable Systems, that re-cabling Britain would generate significant economic activity and stimulate industry in a field where there are important export opportunities for both hardware and software.

The Prime Minister notes the Panel's view that enthusiasm for re-cabling Britain, especially among investors, has sharply declined and believes that ITAP's proposals should be urgently examined along with any alternative proposals from Departments. The Prime Minister also notes the Panel's remarks on the possible effects of the size of the pilot projects and she has heard from other sources that the pilot franchises indeed cover too small an area to be effective for their purpose; she wonders therefore whether this has not in fact contributed to the reduced interest in cable systems. She looks forward to hearing your Secretary of State's views on these matters and those of other Ministers to whose offices I am copying this letter. In due course she will wish to respond to ITAP.

The Prime Minister notes that one of ITAP's proposals is that Government should firmly restate its support for re-cabling Britain and wonders whether your Secretary of State's speech in the Budget Debate might provide an early opportunity for this.

PT/ decided agnst. 19/3

I am copying this letter, together with a copy of the ITAP report and the covering letter from its acting chairman, to Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), Leigh Lewis (Office of the Minister without Portfolio) and Tim Abraham (Mr. Pattie's Office).

RN Hd 20/3

Yours ever

Mark Addison

Mark Addison

Callum McCarthy Esq
Department of Trade and Industry.

D.R.

1.

After Wednesday
Cab Office.

PRIME MINISTER

Cable Systems

MN.

Do you agree Robin Nicholson's advice that the ITAP proposals should be urgently reviewed by DTI and other departments?

If so, do you approve the draft Private Secretary letter at Flag B?

The report is intended as confidential advice to Ministers and ITAP have made no proposal that it should be published.

See amendments on letter. Would you tell Robin Nicholson that the entire point I have intended not

Mark Addison

(Mark Addison)

8 March 1985

W.0212 6 March 1985

PRIME MINISTER

CABLE SYSTEMS

The Information Technology Advisory Panel (ITAP) was formed in 1981 to advise you and Cabinet colleagues on Information Technology. Its first report Cable Systems initiated a widespread debate on re-cabling Britain which culminated in your announcement in December 1982 of the Government's backing for cable systems.

2. In the latter part of 1984, ITAP recognised that confidence in the prospect of re-cabling Britain was waning, especially amongst potential investors, and decided to re-assess the situation with a view to answering the following questions. Was confidence in cable really waning? If so, did it matter? If it did matter, what could be done about it?

3. ITAP's re-assessment of cable systems is now complete and a copy of their report (Flag C) under cover of a letter from their acting Chairman, Dr Ivor Cohen (Flag D) is attached. I have prepared a summary of the report (Flag A) which is also attached.

4. ITAP have concluded that their earlier report was correct in its assessment of the importance of re-cabling Britain, both in respect of its contribution to economic activity in the UK and in stimulating the creation of a competitive industry for export markets. But confidence has waned amongst the investment community as a result of a harsher assessment of the financial balance in investment in cable.

5. Although the removal of capital allowances against tax in the 1984 budget was a significant contribution to this harsher assessment, ITAP have commendably avoided the simplistic solution of recommending the restoration of the old arrangements

for the cable industry. Instead they have proposed a series of measures designed to improve the investment prospects in cable by reducing and spreading out the initial costs and bringing forward the initial revenues from the service.

6. I believe that the measures proposed are entirely compatible with the Government's policies on creating a favourable climate for new business and stimulating competition in the communications industry. As such they deserve to be seriously reviewed, as a matter of urgency, by the DTI and other appropriate Departments. A draft Private Secretary's letter to that effect is attached (Flag B).

7. ITAP also found that confidence in cable had been adversely affected by a perceived loss of support from Government Ministers. They recommend that Government should reiterate its support for re-cabling Britain. An early opportunity to do this would be in the Secretary of State for Trade and Industry's speech in the Budget Debate. I have drawn attention to this opportunity in the draft Private Secretary's letter.

8. I am copying this minute and the attachments to Sir Robert Armstrong.

RBN

ROBIN NICHOLSON

Cabinet Office
6 March 1985

B

RESTRICTED

DRAFT LETTER FROM THE PRIVATE SECRETARY TO THE PRIME MINISTER TO THE PRIVATE SECRETARY OF THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

The Prime Minister has received the report of the Information Technology Advisory Panel (ITAP) on Cable Systems: A Re-assessment. She has noted that the Panel has reaffirmed its view first stated in its report of February 1982, Cable Systems, that re-cabling Britain would generate significant economic activity and stimulate industry in a field where there are important export opportunities for both hardware and software.

[notes?]

The Prime Minister ~~accepts~~ the Panel's view that enthusiasm for re-cabling Britain, especially among investors, has sharply declined and believes that ITAP's proposals ~~for restoring the situation~~ should be urgently examined along with any alternative proposals from Departments. She looks forward to hearing your Secretary of State's views on the matter and those of other ministers to whose offices I am copying this letter. In due course she will wish to respond to ITAP.

The Prime Minister notes that one of ITAP's proposals is that Government should firmly restate its support for re-cabling Britain and wonders whether your Secretary of State's speech in the Budget Debate might provide an early opportunity for this.

She understands from other sources that the pilot projects cover too small an area to be effective for their purpose and wonders whether this is a factor which has led to reduced interest in cable systems.

I am copying this minute, together with a copy of the ITAP report and the covering letter from its acting Chairman, to the Private Offices of the Chancellor of the Exchequer, the Home Secretary, the Minister without Portfolio and the Minister of State for Information Technology.

Mullard

OFFICE OF THE
MANAGING DIRECTOR

Mullard Limited Mullard House Torrington Place London WC1E 7HD

D

6th March 1985

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

Dear Prime Minister

CABLE SYSTEMS

The Information Advisory Panel examined the subject of cable systems three years ago and our published report preceded a wave of interest in the subject and the prospect of making the UK a "wired society".

Since then, after the initial enthusiasm, the uncertainties around the development of cable have slowed down the rate of progress. We decided sometime ago to revisit cable as part of a review of the wider information technology strategy but we were advised, towards the end of last year, that Ministers would welcome a view from us by the end of February. As a result we have concentrated on this issue and, in the time available, sought evidence from the cable industry, and, in particular, the eleven pilot franchise companies, but also from outside research bodies and the Government agencies concerned in this field, including the Cable Authority.

Unfortunately, the sudden illness of our Chairman - Mr Charles Read - has delayed our final report and he has asked me, in his absence, to finalize and to send to you our conclusions. We have written this paper as an internal advice to Ministers rather than for publication and as in all our work it represents our views rather than an industry consensus view of the situation. We do not claim, therefore, that it is an indepth study, rather a distillation of the present situation with recommendations in those areas where Government action might improve the situation.

We continue/

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Registered in England No 207669 Registered Office Arundel Great Court 8 Arundel Street London WC2R 3DT

M1612 9/84

The Rt Hon Margaret Thatcher MP 6th March 1985

We continue to believe that cable systems are a vital part of Britain's future both in the way the country uses them and as a provider of wealth and jobs. We do, therefore, urge on Government that it adopts the measures we suggest to set up the right atmosphere.

As always, we remain at your and Ministers' disposal for further discussion on the subject.

Yours sincerely

Ivor Cohen

I H Cohen

RESTRICTED

PU happy.

W.0211 6 March 1985

MR TURNBULL, NO 10

ITAP REPORT: CABLE SYSTEMS: A RE-ASSESSMENT

I enclose a copy of a report from the Prime Minister's Information Technology Advisory Panel entitled Cable Systems: A Re-assessment, together with a covering letter from the Panel's acting Chairman, Dr Ivor Cohen. I also enclose my summary of the report, my advice to the Prime Minister on the handling of the report and a draft Private Secretary's letter which would act on that advice. Five additional copies of the report and the covering letter are also provided. At the present time Dr Cohen only needs an acknowledgement of receipt of the report.

I have not included a time deadline in my draft Private Secretary's letter but you may feel it advisable to do so. I think a month would be ample since the situation is urgent and the main Departments involved have had a sight of early drafts of the report.

Please note that the report is intended as confidential advice to Ministers and that ITAP has made no proposal that it should be published.

RJN.

ROBIN NICHOLSON

Enc.

Chat go to RTA

Mullard

OFFICE OF THE
MANAGING DIRECTOR

Mullard Limited Mullard House Torrington Place London WC1E 7HD

6th March 1985

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON SW1

Dear Prime Minister

CABLE SYSTEMS

The Information Advisory Panel examined the subject of cable systems three years ago and our published report preceded a wave of interest in the subject and the prospect of making the UK a "wired society".

Since then, after the initial enthusiasm, the uncertainties around the development of cable have slowed down the rate of progress. We decided sometime ago to revisit cable as part of a review of the wider information technology strategy but we were advised, towards the end of last year, that Ministers would welcome a view from us by the end of February. As a result we have concentrated on this issue and, in the time available, sought evidence from the cable industry, and, in particular, the eleven pilot franchise companies, but also from outside research bodies and the Government agencies concerned in this field, including the Cable Authority.

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We continue/

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The Rt Hon Margaret Thatcher MP 6th March 1985

We continue to believe that cable systems are a vital part of Britain's future both in the way the country uses them and as a provider of wealth and jobs. We do, therefore, urge on Government that it adopts the measures we suggest to set up the right atmosphere.

As always, we remain at your and Ministers' disposal for further discussion on the subject.

Yours sincerely

Ivor Cohen

I H Cohen

INFORMATION TECHNOLOGY ADVISORY PANEL

CABLE SYSTEMS : A REASSESSMENT

BACKGROUND

1. The first report by the Information Technology Advisory Panel on Cable Systems was published in February 1982.

2. This report concluded that the development of cable systems could generate considerable economic activity and would stimulate high technology industry, with consequent benefits both in the UK and for export. In particular, although the initial appeal of cable systems would be in the provision of additional entertainment services, these would eventually form the basis for wideband interactive communications between homes and businesses and would promote the development of a society rich in information and its uses.

3. The report recommended that the Government should encourage the introduction of cable systems (and also Direct Broadcasting by Satellite (DBS) which was seen as complementary), that it should set technical standards and grant licenses and that a "Cable Authority" should be set up by early 1983. The report also recommended that more co-ordination was needed to encourage the industry, both within Government (where several departments had an interest) and between Government and the private sector.

4. Following ITAP's report, the Hunt Committee examined the subject and reported in October 1982. The Government reacted swiftly to the recommendations of this report and the Prime Minister announced their backing of cable systems in December 1982. Cable systems were seen as important not only as a stimulus for the technology (which had wide applications) and the enhanced capabilities thereby produced for business and commerce, but also in its direct effects as a source of new employment in installing, operating and supporting this innovative communication medium.

5. This announcement was followed by a White Paper in April 1983 but, unfortunately, the pace began to slow and the initial euphoria surrounding this exciting new field began to evapourate. The General Election of June 1983 interrupted the progress of the Telecommunications Bill which was delayed until April 84. This in turn delayed the licensing of the eleven pilot cable franchises which were announced towards the end of 1983. The promised Cable Authority did not materialize until a year later.

6. By this time, confidence in the industry had ebbed considerably and several companies had withdrawn or reduced their commitment to cable. The legislative delays, difficulties over the terms of the franchises and licences (particularly the telecommunications licence) and, of course, the removal of capital allowances against tax in the March '84 budget, all contributed to the pessimism within the industry. More fundamentally, the Government was generally believed to have lost interest in cable and this had a major influence upon the attitudes of those involved. Last October marked a low point with Plessey-Scientific Atlanta abandoning their switch plans and Visionhire pulling out of the business, but Robert Maxwell showed his confidence in cable in the same month by acquiring the Rediffusion cable interests from B.E.T. albeit at a very attractive price.

7. In the light of concerns about lost momentum and the widespread uncertainty in the cable industry about the future, ITAP have collected evidence from those currently involved in cable in order to form a snapshot of the state of the industry and to identify areas where action might be taken by Government to improve the situation. It was originally intended that this examination of cable would be carried out within a wider study of the strategic role of Government in IT as a whole, but it quickly became apparent that the problems facing cable require urgent action and this report has therefore been produced separately. It has drawn widely on written evidence from individuals and organisations inside and outside of the cable industry and, although the short timescale over which it has been written means that it cannot pretend to be an exhaustive analysis, we feel it encompasses much of what is currently wrong with cable and where corrective measures could help to set things right.

CHANGES IN THE ENVIRONMENT FOR CABLE

8. The major problem which the cable industry faces is a loss of confidence in its viability. This attitude is now widespread and particularly affects potential investors in existing and new franchises. Since a new industry like cable has no track record with which to attract backers, the mood of scepticism which has grown up is a formidable obstacle to success. This is especially true for cable where substantial sums are required in the early stages of installation of a network. The Cable Authority have just completed a survey of organisations thought to have an interest in acquiring one of the next tranche of cable franchises. The results show that only a few feel able to proceed in the present financial climate and that most of these have not yet actually obtained the necessary backing.

9. This state of affairs can be attributed partially to the downturn in enthusiasm which often accompanies actual implementation of a new venture of this kind, but the current mood cannot be explained entirely in these terms. The reality of the financial environment for cable ventures was not always sufficiently appreciated by those who originally sought a role in the business. Some thought that cable would prove to be an easy route to big money, but the reality is that cable investments are like many other large scale projects and will only show a return in the longer term. The capital allowances issue, although significant, is only one aspect of this. Even before the last budget, the timescales for payback on the huge early investments in cable stretched farther than many investors liked. The peak financial commitments typically occur around the third year and a positive cash flow would, in any event, not have been achieved until year six or seven. This has now been delayed by several more years and, although thereafter money starts to roll in, it is often not soon enough to attract the initial support required.

10. Another factor has been the slow progress in reaching agreement on licences and establishing a Cable Authority, which has lessened confidence and generated uncertainty where it did not actually impede progress. Basing the Telecommunications Licence on the British Telecom licence delayed its availability and extended the period required for negotiation with the cable operators. There have also been difficulties over licence terms. The length of the payback period makes the 15-year licence of marginal interest to cable

operators while the technical requirements to qualify for the full 23-year licence compound the financial difficulties if expensive switching equipment has to be installed immediately. The Department of Trade and Industry recognises this problem and is attempting to ease the situation by allowing a franchise holder seeking a 23-year licence to establish a cable system initially without the capabilities for interactive services, and then to upgrade the system to the full technical standard within seven years in order to obtain the longer licence.

11. Tens of millions of pounds have already been invested in cable (£50 million in new programme services alone), but the reality is that only a few thousand homes have yet been newly cabled. Indeed, in terms of overall numbers, there are fewer customers connected to cable systems now than there were in the mid-70's. The slow progress of cable compared with earlier hopes for substantially-greater penetration by this time has further reduced confidence amongst actual and potential participants.

12. DBS has also been subject to delays and its relationship with cable has been the source of continuing dispute. Some regard one or other as the natural delivery system for particular services and foresee fierce competition for an audience. The first ITAP cable report expected a DBS service to start in 1986 and envisaged that cable would provide a distribution system for satellite broadcast entertaiment and would enlarge the available audience. Despite the delays, this broad picture of DBS and cable as complementary technologies remains valid. We expect each to find a place in the provision of non-interactive services but feel that the increased potential of cable for interactive operation will eventually be of great significance as demand for these services develops.

13. The current level of interest shown by consumers towards interactive services on cable is, however, very low and the cost of providing these services very high. It is early days, however, and the growth of demand for new entertainment services (now with over 100,000 customers) points the way for the interactive field. We believe that a significant market for such services will develop and, as discussed in our second published report "Making a Business of Information", that this market will be of increasing importance to the economy. It is therefore necessary to recognise the short-term problems associated with the provision of interactive, non-entertainment services but not to preclude

longer term opportunities by allowing cable systems to be installed without some potential for them to be eventually upgraded to full interactivity when required.

14. The lack of clear evidence concerning the eventual market for interactive services is an example of the uncertainties associated with marketing cable services generally. There have been wide disparities in approach and level of success amongst the pilot franchise cable operators, and an understanding of the special characteristics of the cable market and of the techniques best suited to attract customers in it has been slow to emerge. This remains an area of uncertainty in the cable business and contributes to the nervousness of those who might become involved. Despite this, it is clear that hopes for the eventual market (particularly for interactive and telecommunications services) is a major factor in the continued involvement of some cable operators in what they otherwise perceive as a very high risk venture.

THE WAY FORWARD

15. It is clear that the present environment for cable ventures is such that finance is extremely difficult to obtain. Many investors are unwilling to 1 provide the large amounts of capital required and it is mainly organisations like BT, with huge cash stocks and a culture accustomed to investment for long-term return, which are making much of the running. It is therefore necessary to consider what changes need to be made in order to restore confidence in cable and to ensure that cable ventures can be viable.

16. Much of the pessimism about cable is the result of uncertainties - uncertainties about the licences, the role of the Cable Authority, the market for entertainment and non-entertainment services and, particularly, the attitude of Government. The initial "green light to the cabling of Britain" is no longer seen to burn so bright. The removal of capital tax allowances, which we have already mentioned, was influential here. To some, the impression given by the change was that the Government's commitment to the cable industry, as expressed by the Department of Trade and Industry, was not shared by Chancellor of the Exchequer and this undoubtedly resulted in a loss of business confidence. A clear reaffirmation of Government commitment to cable systems is an essential first step in restoring that confidence and regaining lost momentum.

> Recommendation 1 : The Government should firmly restate its support for cabling Britain and its confidence in the future of cable systems as part of the national infrastructure.

17. Words without actions will not be sufficient, however, and it is necessary to look at ways in which the financial and other problems of the industry can be alleviated. The financial difficulties are mainly related to cash flow rather than operating profits, which in later years are likely to be very substantial. Some cable operators indicate that they will generate an operating profit after depreciation, but before interest repayments, in the first year. It is the scale of these interest repayments, due to the size of the front-end investment necessary, which causes the problem. We will look at the detail if

this under headings:

- Reducing Costs
- Deferring Expenses
- Increasing Revenues
- Providing Funds
- Boosting Confidence

Reducing Costs

18. It has been suggested in some quarters that the technical standards intended to promote the development of interactive non-entertainment services should be relaxed in order to reduce the cost of cable systems. We believe this is not a sensible option for several reasons.

a.The major part of the costs lie elsewhere than in the support of interactive services. Estimates vary, but the cost of installing the cable itself constitutes around two-thirds of the total system cost. The savings possible in the remaining areas have only marginal effects.

b. Indeed, when <u>all</u> costs (including operational costs) are taken into account, relaxing the technical standards may not produce an overall saving. For example,the costs associated with connecting and disconnecting customers, and with changing the services they receive, can be much higher with "low-tech" cable systems, due to higher staff costs associated with manual rather than automatic alterations. In many instances with a simple cable system, a serviceman may have to visit a customer's home to carry out alterations whereas with a more sophisticated system, the changes can be directed remotely through a computer terminal. Such continuing operational costs could more than nullify initial savings. In addition, when multiple connections to a customer's home are considered (to serve more than one TV, VCRs, etc) the more advanced switched systems can be cheaper even in installation terms.

c. Restricting the range of services which can be provided will limit the revenues available to cable operators as the market for interactive services develops. It is also undesirable that the potential benefits of

interactivity are not made available to the consumer.

19. We conclude that there is not a case for an overall reduction in technical standards, but recognise that there may well be benefits in minimising the initial costs of cable systems, providing that future flexibility is not thereby overly constrained. We consider that it is acceptable to allow cable systems to develop in this incremental fashion, providing that the initial topology of the network is suitable for eventual conversion to interactive operation and that the quality of cable, ducts, equipment housings, access ports, and so on, is such that the system can meet the eventual performance requirements.

20. A more fruitful area for cost reductions becomes apparent on closer inspection of the cable network itself. Much has been made of the potential of cable systems as an element of national infrastructure. We strongly support this view, especially in regard of telecommunications services, but the costs breakdown of cable systems which we have seen makes it apparent that the cable itself is only a small part (around 20%) of the costs involved in installing the physical cable network, and is even less when customers' equipment is taken into account. Apart from switching equipment, etc, the ducting and other pathways by which cable connects to individual homes and business premises, and the expense involved in installing these pathways, therefore constitute almost all of the costs in the system. It is these components of a cable network which truly represent the infrastructure aspect of cable systems.

21. It is consequently apparent that major advantages lie with organisations which already have access to such pathways. In particular, BT is able to employ the ducts which exist for telephone cables to accomodate wideband cable and has even in some instances replaced overhead wiring from telegraph poles to individual homes with composite wiring containing a wideband coaxial core and a telephone pair. The cost benefits conferred by this arrangement are substantial. Other cable providers will face significantly higher costs and alternatives which they develop to reduce these costs, such as running suitably armoured cables through sewers, are unlikely to redress the imbalance.

22. We therefore consider that the central importance of ducts and other pathways should be recognised and that steps should be taken to ensure that cable providers can face broadly-similar costs in this area. Although such

pathways exist for a variety of services and public utilities (such as electricity), it is those intended for telephony which are most suited for use by cable, since difficulties over interference, shock hazards, etc are minimised. We see four main options -

a. Ensure that BT (and, where appropriate, Mercury) make available on reasonable terms cable within ducts, etc, to carry cable services. We consider that this option does not go far enough in providing access to the ducts and other pathways themselves, since the cables would not be the property of the cable company.

b. Ensure that BT (and, where appropriate, Mercury) make available on reasonable terms space within ducts, etc, for the installation of cables belonging to other cable providers. We recognise the difficulties inherent in this option, but consider it to be attractive.

c. Place BT and Mercury on the same basis as other cable providers by making the ducts, etc, the responsibility of another party (Cable Authority, OFTEL). We consider that this option is impractical and overly bureaucratic.

d. Regard BT as having a natural monopoly of the ducts, etc, accept that the economics make competition by other cable providers infeasible in the longer term and allow BT to act as cable provider for all cable networks. We do not consider that this option is acceptable, since it eliminates the competitive element from cable provision and reinforces BT's control.

23. We consider the second option to be the most acceptable. BT (and Mercury) should lease duct space to other local cable providers. Where ducts are full, new ducts should be provided or existing wiring replaced or rearranged to make room. If necessary, installation and maintenance can be carried out by BT/Mercury staff to avoid wrangles over the effect on their own cabling, but the ownership must clearly lie with the cable companies. Overhead wiring should also be replaced with composite cables (as described in paragraph 21) to allow cable providers cheaper access to homes and other premises. There are clear potential legal difficulties in this approach, but the cost advantage enjoyed by BT in particular because of its marginal costs in employing telephone ducts, etc, will otherwise mean that no other cable provider is able to compete in any

area where BT chooses to provide cable. The aim must be to eliminate this cost advantage and allow all cable providers, including BT (and eventually Mercury), to compete fairly. We can identify a number of approaches to achieving such an arrangement. These, and any others which may emerge, should be examined to find a practical way to achieve this aim.

- The Director-General OFTEL might use his powers under the BT and Mercury licences, if these are adequate and relevant, to require these organisations to allow cable providers access on reasonable terms to ducts, etc. This is a desirable approach but, we understand, may not be feasible. Nevertheless, it should be explored.

- The granting of future licences to BT and Mercury to act as cable providers might be made conditional on their voluntarily agreeing to enter into an arrangement such as has been described.

- The Secretary of State for Trade and Industry might indicate to BT and Mercury that a reference to the Monopolies and Mergers Commission would be made, or might take direct action under the Competition Act himself, over the exclusion of cable providers from these pathways, on the grounds that this was anti-competitive and against the public interest.

- As a last resort, new legislation might be introduced to require BT and Mercury to allow access to cable providers.

Recommendation 2 : All necessary legal steps should be taken to ensure that BT and Mercury allow all cable providers access on reasonable and equitable terms to cable ducts, overhead wiring from poles, etc. If the powers available to the Director-General OFTEL under the BT and Mercury licences are not adequate to achieve this then other options, such as those listed above, should be explored.

Deferring Expenses

24. There is some evidence that much of the cost in cable networks depends linearly on the number of houses passed (the suggested figure of £200 to £300 per home passed given in the first ITAP cable report seems to be borne out in

practice). As a consequence, there may be opportunities to encourage cable development by allowing small networks to be installed initially and then, as the market develops, letting these grow to more conventional sizes. This will reduce the scale of investment required in the early stages of a cable venture, smooth the investment profile and allow additional capital to be attracted after initial results can be demonstrated.

25. We therefore consider that there is a need for a flexible attitude to the development of a cable franchise. The cable company should be allowed to grow the network gradually, possibly from several smaller networks within the franchise area, and to establish the appropriate mix of consumer interests within the audience to allow the various cable services to be provided economically. The size of a franchise area, or the area potentially available to a franchise holder, should be large enough to allow this audience mix to be achieved and this may well imply areas much larger than those allocated for the pilot franchises.

26. There is a need in this approach to strike the right balance between minimising the initial costs and ensuring that a full cable network providing a range of services to a natural community eventually develops. In the process, the interests of consumers not initially cabled must be recognised and care taken that desirable areas are not allowed to be "cherry picked" without any intention of further development.

> Recommendation 3 : Cable franchises should be allowed to develop gradually within constraints which avoid lucrative areas being cabled to the exclusion of the remainder of a community. This applies both within the typical cable franchise area and, where possible without conflict with consumer interests, beyond the boundary of such an area.

Increasing Revenues

27. The development of entertainment services on cable systems depends heavily on the quality of the programme material which is made available. Good and plentiful programming is expensive and the small audiences available during these early days of cable restricts the money which can be allocated for this

purpose. Programme providers have already made substantial investments in advance of the market, but need to realise a larger audience if they are to recover their costs and maintain their commitment. In order to assist them, and at the same time to develop public interest in the entertainment services (which, as we noted in our first report, are the basis on which cable systems must build), we would encourage intermediate technologies which can provide a bridge to full cable systems. In particular, Mast Antenna TV (MATV) systems should be allowed to relay the programming material now available over cable systems in order to enlarge the potential audience and increase the revenues available to the cable industry, while making more of the public aware of the possibile benefits of cable systems.

28. Where MATV installations already exist, serving either a single building or an area linked with cable in some way, licences should be granted for the use of dish antennae to receive the satellite transmissions now used by cable networks, and thus extend the range of programming available. New MATV installations should also be encouraged across the country. These limited systems should be regarded as the nuclei around which cable networks can grow. We recognise that there may be problems when the area concerned is eventually cabled, in balancing the interests of the MATV operator and the cable company, and consider that the Cable Authority should have responsibility for arranging that the MATV installation is satisfactorily connected to the cable network or is replaced by it when the need arises.

29. For both existing and new MATV installations the aim should be to encourage the development of real cable systems. There is an obvious danger that these limited installations might be constructed or extended in a way which precludes their economic extension to one-way, and eventually two-way, cable networks. The requirements for topology and quality noted in paragraph 19 should therefore apply here also, at least where any substantial new system is concerned. It is also important that the existence of MATV systems should not impede the spread of cable networks. The licences granted for the reception of the new services should therefore be only for a short period, say five years, and renewal should only apply in the absence of a cable system to which the MATV system can be satisfactorily connected or by which it can be replaced. When such a cable network is introduced, the Cable Authority should be responsible for ensuring that an acceptable settlement is negotiated between the MATV and cable companies.

Recommendation 4 : Licences should be granted for the reception of cable programmes from satellites by MATV installations, both new and developed from existing systems, and the period and terms of these licences should encourage the extension of these systems into full cable networks. Particular care should be taken that such limited installations allow an upgrade path without excessive costs. Their eventual integration into cable networks should be the responsibility of the Cable Authority.

Providing Funds

30. There are good prospects for the employment opportunities created by cable systems. Significant numbers of jobs are associated with the manufacture of the cable and associated materials and, particularly, with the installation of the systems - around 15,000 jobs over 4 or 5 years to cable half the homes in Britain. The employment created here is clearly not permanent but the staff needed to operate and support cable networks is of the same order - around 1 full-time job for every 1000 homes passed by cable. With more tham 20 million homes in the UK, only a fraction of these need be cabled before the employment created by the industry surpasses, for example, the total resulting from the inwards investment of Japanese companies in this country.

31. With such a potential benefit in mind, we believe that Government should provide some postive help for cable companies during their difficult early years. The Business Expansion Scheme provides a mechanism for Government assistance through tax relief on individual investments in new ventures. We consider that this way of encouraging outside investment should be applied to individuals or companies investing in cable ventures and that the investment limit which applies for cable should be compatible with the scale of the total investment required (a limit of around £500,000 is suggested). This possibility should be examined despite the existing arrangements for consortium tax relief which can apply to cable ventures, since it would be aimed at attracting outside capital in the form of shareholdings. It would also encourage wider investment in cable than is presently the case. Increasing participation beyond the major players at present - BT, Thorn-EMI and Robert Maxwell - would be desirable in improving competition and encouraging

entrepreneurism. To avoid abuse, the existing provisions of the BES, such as a time limit on withdrawals, should apply and the Cable Authority should have responsibility for deciding which cable companies qualify for this kind of support.

32. Another possibility would be to encourage householders to pay for part or all of the cost of cabling as a home improvement. The Building Societies appear sympathetic to adding home improvement costs to mortgages and Government might consider whether the cost of cabling a house should qualify for a home improvement grant. The Government could also assist cable companies through a loan guarantee scheme, either for cable ventures as a whole or to encourage particular aspects such as the use of the more speculative techniques for cable laying. This would again encourage wider participation in the business.

33.We regard these and other schemes to bring the costs of cabling within existing arrangements for assistance from DTI and other Departments, as worthy of active consideration by Government, in order to mitigate the high initial investments required of prospective cable companies which impede the spread of cable systems and the services which they can offer.

Recommendation 5 : Government should bring cable ventures within the scope of the Business Expansion Scheme, under the supervision of the Cable Authority, as described and should consider whether other suitable forms of assistance can be made available.

Boosting Confidence

34. As noted in paragraph 8, cable suffers currently from a crisis of confidence. It will be necessary to demonstrate that cable networks, especially those dependent on newly-developed and untried technology, can be viable in order to restore confidence amongst investors. We therefore consider that the Government should provide selective financial assistance to a small number of cable ventures willing to act as guinea-pigs in demonstrating advanced technology within their cable systems. Such demonstrators will break the closed loop which currently exists, where customers do not want interactive services

because they are not aware of what they can do and cable operators cannot justify providing these services in the absence of consumer demand. The support would concentrate on the application of the technology within cable systems, rather than on its development for which other arrangements already apply. It could follow the Alvey Programme model of 50% Government funding and 50% industry funding and need only apply to a small number of cable systems, each demonstrating a particular approach to, or aspect of, interactivity. In addition, peripheral activities such as small-scale simulations of new services might be supported to allow consumer reactions to be assessed, and to aid the industry in evaluating and meeting real market needs in this new sector.

Recommendation 6 : Government should encourage the development of cable technology by the selective funding of a limited number of demonstrator projects and associated activities.

35. A further opportunity to show Government's interest in cable exists with the proposals to provide IT facilities throughout the Palace of Westminster and the existence of a pilot cable franchise in the Westminster area. We would suggest that close attention is given to the possibility of linking any IT installation (even a pilot project) within the Houses of Parliament with the Westminster cable network. This would allow access via the network to other Government offices and establishments and would demonstrate that Parliament is in the forefront of the user community which will exploit the great potential of cable systems for communication.

Recommendation 7 : Subject to the views of the Houses of Parliament, the proposed Parliamentary IT system should be linked with the Westminster Cable network.

36. The Government's attitude to competition in the industry can have a major influence in improving confidence. We have referred to the need to place all those concerned on a similar footing with respect to cable installation costs and to the desirability of attracting a wider range of investors. In the longer term, cable offers the prospect of both improving the telecommunications

infrastructure of the UK and placing it firmly on a more competitive basis than is otherwise feasible. The role of BT in cable is therefore of paramount importance. Its current involvement, and its technical and financial strengths, provide it with a potential stranglehold on this new industry. It is clear that in a liberalised market there is only one direction for BT's market share to go and that there is no incentive for BT to operate to the advantage of a technology and an industry which will eventually attack its pre-eminent position in telecommunications. We have already made specific recommendations in areas where we consider that the Government an act to improve the environment in order to encourage competition, but would additionally suggest that this aspect of Government policy towards the cable industry is kept very much in mind throughout the months to come.

CONCLUSION

37. It will take a good deal of effort to restore the high hopes and great expectations which existed for cable in 1983. There is a spirit of realism abroad in the industry, however, and a recognition that the problems which it faces can be successfully overcome if the will is there. We feel that the effort to restore confidence will be worthwhile, because of the important part which cable systems can play in developing technology which will be useful far outside the industry itself, and in establishing a communications infrastructure upon which the nation can build in the future. Action is required of Government to achieve the right environment and some financial assistance in selected areas is necessary because of the formidable early costs which cable companies now face. We have suggested measures intended to expand the options available to cable companies in dealing with these costs and to improve the competitive environment in which these companies operate. In addition, we have examined a variety of other ideas (for example, that there should be a moratorium on the payment of rates for cable connections to homes) which we have not felt were appropriate for inclusion in a brief report of this nature, but this is not to suggest that action should necessarily be limited to the recommendations which we have made.

38. In conclusion, the chief executive of one of the pilot cable franchises has commented to us that cable is not a sickly child in need of permanent help but a healthy toddler requiring assistance in learning to walk unaided. We support this view and hope that the Government will be able to extend a helping hand to cable while it outgrows its current pains.

CC No
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Secretary of State for Trade and Industry

8 February 1985

The Rt Hon Leon Brittan QC MP
Secretary of State for Home
Affairs
Home Office
50 Queen Anne's Gate
London SW1

mbpm
11/2

Dear Leon.

PROSPECTS FOR THE CABLE INDUSTRY

Thank you for your letter of 30 January. The Cable Authority's perceptions of the mood of the cable industry coincide with ours. Morale has been low, but partly self-inflicted. The industry itself now appears to recognise that by reacting so strongly to the loss of capital tax allowances it has deepened the gloom and turned away potential investors. Some within the industry have endeavoured to convey a more optimistic message, but as you rightly say it has not been interpreted and reported in that way. We intend to use opportunities as they arise over the coming weeks to reaffirm the Government's wish to see cable succeed, but without moving from our declared policy that this new high risk industry must be privately financed and market led.

2 The ITAP report, should it be made public, may present one such opportunity to reaffirm our commitment. There is a danger also that it might prove counter-productive from this point of view, since it will raise the industry's expectations of Government help which might then have to be dashed: more gloom would result. That would be most unfortunate because the industry does now seem to be poised to move ahead on the pilots and to embark upon the Cable Authority's first round of franchising. Firms set up to provide equipment and services need orders and revenue if they are to stay in business. A further hiatus at this time would be damaging. I hope that this aspect will be borne in mind when the question of publication of ITAP's findings is considered.

3 It is our intention to release the fourth, and hopefully final, full draft of the telecommunications licence to the pilot applicants and industry representatives during the next few days. I agree with you on the psychological importance of completing the

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licensing quickly, although I understand that financial and equipment difficulties have been the determining factor of progress by the pilot projects rather than the absence of licences. The speed at which these are now agreed is largely in the hands of the pilot applicants.

4 Negotiating the licences has proved to be very complex in order to ensure that appropriate obligations are placed upon and accepted by cable operators and that anti-competitive practices are avoided: the role of BT required particularly careful consideration and long negotiation. Achieving a satisfactory balance between fostering advances in technology (and services) and imposing unacceptable economic burdens on cable operators has been equally difficult. However, having done it for the pilots the process for subsequent licensing rounds will be much easier.

5 I am sending copies of this reply to the Prime Minister, to the Chancellor of the Exchequer, to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

Yours

NORMAN TEBBIT

JH5ARF

Broadcasting: Direct Broadcasting: A5.

Prime Minister (4)

pa DMB 4/1

cc BT

QUEEN ANNE'S GATE LONDON SW1H 9AT

A gloomy report – but there are limits to how far the Government should try to create confidence where none exists. DMB 30/1

30 January 1985

Dear Norman,

MT

PROSPECTS FOR THE CABLE INDUSTRY

The Chairman of the Cable Authority, Mr Richard Burton, has been discussing with Giles Shaw the Authority's initial perceptions about the present mood of the cable industry, and I thought that it would be helpful to pass on to interested colleagues some of the main points which emerged.

The low state of morale in the industry has been widely reported over recent months. Mr Burton's view is that some of the gloom has been overdone. For example, the decision of Robert Maxwell to buy into cable could have been perceived more readily as a vote of confidence from someone who would not have invested if he had not thought it worth his while. In addition, the take-up of the new channels which are on offer over the old cable relay systems is now much more encouraging that it was a few months ago. Nevertheless, the overall position is far from promising. One of the pilot projects, Windsor Television, has suspended operations for six months and there seems little chance that they will decide to resume at the end of that period. It is still possible that others may decide that they cannot proceed for lack of funds. Of the eleven only Swindon, where an old, upgradable system was already in place, is actually offering services to the public.

The Cable Authority have written to a number of companies to discover their present intentions and in the light of their reactions hope to be able to advertise a further five franchises by the end of February. The Authority are understandably anxious that everything possible should be done to remove any unnecessary reservations which potential investors have about cable and are keen for the Government to play its part in reaffirming its wish to see cable succeed. There are three particular points which came out of the recent discussion.

First, the Authority regard it as essential for confidence that all the telecommunications licensing issues, including those relating to the participation of BT, are resolved before the next round of franchising starts. They appreciate, I think, that the delays have been caused by the difficulty of coping with this exercise at the same time as the BT floatation and the putting into place of a new regulatory scheme for telecommunications rather than by any lack of political interest in cable. But they believe that further uncertainties could be very damaging. I understand that good progress has now been made and that there is every prospect of licences being available during the course of February. It would, I am sure, be very discouraging to the Authority if there were to be any further delays.

Second, complaints about the withdrawal of capital allowances are still to be heard in the cable industry, which believes that it was particularly hard hit by the change. I think that the Authority appreciate the reason for that

The Rt Hon Norman Tebbit, M.P.

/cont ...

decision and do not anticipate its reversal. But they hanker for some action which might ease the financial problems of such a highly capital-intensive new industry. I rather doubt whether there is anything that we can in fact do but it may be that the ITAP, which I understand is working on a review of the position of cable, will address this possibility in their report which is due by the end of February, and if so we shall have time to decide how to react to what they say.

Third, the ITAP report will give us an opportunity of reaffirming publicly the Government's hopes for cable. The Cable Authority attach importance to this. It is evident that the industry takes very careful note of all Ministerial utterances about cable and while words are not going to alter the underlying economics, I am sure that we ought to do all we can to dispel any mistaken ideas about a cooling of the Government's interest without, of course, any kind of financial assistance.

I am copying this letter to the Prime Minister, to the Chancellor of the Exchequer, to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

Yours,

Ian

1) Mr Turnbull
2) Prime Minister (2)

To note. This may come up at the BT dinner tomorrow night.

CONFIDENTIAL

W.053

21 January 1985

PRIME MINISTER

CABLE

The Information Technology Advisory Panel's report on "Cable Systems" played the major role in stimulating the Government's initiative on Cable.

2. The Panel is therefore concerned at the flagging interest in Cable and has decided to re-assess the situation and report to you by the end of February.

3. In a preliminary discussion, the Panel has reaffirmed its view that 're-cabling Britain' is an exciting and important development with substantial potential benefits for the consumer, industry, exports and jobs.

4. The Panel has identified the following causes of the slow-down:

(a) the loss of momentum from the delay in legislation arising from the June 1983 election - the Director-General of the Cable Authority was only appointed last week and no Telecommunication licences have yet been issued by DTI;

(b) the loss of capital allowances in the 1984 Budget which has increased the payback period by 3 years;

(c) the loss of enthusiasm in the City as a result of (a) and (b) above; hence difficulty in raising finance;

CONFIDENTIAL

(d) the loss of incentive to manufacturers to invest because of the apparently shrinking market potential - eg cable itself is having to be imported.

5. Some of the solutions which the Panel are investigating are as follows:

(a) Cost reduction eg through reducing the high cost of installing the cable itself by using existing water authority or BT ducts.

(b) Fiscal measures eg the temporary restoration of the tax position to the pre-1984 Budget level to get Cable moving.

(c) Revenue enhancement through the development of the cable system beyond entertainment distribution towards interactive services and an advanced communications network competing with BT's communications system.

(d) Restoration of confidence in financing institutions through a combination of (a) and (c) above and a strong Government statement reaffirming its commitment to Cable.

6. It is highly likely that BT's best interests and the Government's interests in promoting cable are in conflict, possibly in severe conflict, and now that the BT flotation is out of the way, the Panel will probably be advising the Government that DTI should draw back from its perceived favoured treatment of BT in the Cable scene.

RBN.

ROBIN NICHOLSON
Chief Scientific Adviser

Cabinet Office
21 January 1985

MR INGHAM

Dub 19/12

18 December 1984

WINDSOR CABLE TV

There is a fair chance of a decision to terminate the Windsor Cable Television Consortium this afternoon. In negotiations over the last month they have threatened that if they were forced to close then they would go down in flames blaming Government.

The root cause of their failure lies in a less optimistic environment for cable TV, with lower take-up rates being experienced by those that have commenced operations, and in poor planning and management at Windsor, although of course you cannot say any of this.

Windsor are likely to blame in particular the removal of capital allowances which will certainly have adversely impacted upon them. They may also blame Government delay in granting licences (this will not have had any effect upon their circumstances) and for insisting on too high a technical specification for the system (there is an element of truth in this). Against this, the Government had been prepared to extend their franchise to include the lucrative Heathrow Airport area.

There were 11 consortia originally franchised and this is the first to fail. There are others in difficulty: in particular the Clyde consortium could also be brought down.

I don't think No 10 should offer any comment but if forced the message we want to get across is that one would expect the odd failure in a new venture such as cable TV, and it does not follow that the general proposition is unsound. And whilst the removal of capital allowances will not have aided these consortia, the Government had shown flexibility by extending Windsor's franchise area.

Peter Warry

PETER WARRY

PRIME MINISTER (4) 11 September 1984

CABLE

There is much press comment that our cable policy has lost its way. Many of the pilot franchise companies are disappointed and frustrated. These views are unjustified, although understandable.

Licences

When the 11 pilot franchises were selected in November last year, we had hoped that these companies would be up and running well before the Cable and Broadcasting Bill became law. However, although the Bill was enacted on 26 July 1984, Home Office and DTI licences have so far only been issued to 4 consortia.

The other seven will now receive licences later in the year (allowing for consultation periods) under the 1984 Telecommunications Act. This has the considerable advantage of conferring PTO status on the cable companies which will enable them to short-cut many planning procedures.

Part of the problem has been DTI's attempt to impose obligations upon the cable companies in return for monopoly franchises. This tends to conflict with our general desire to leave the development of cable to market forces. A satisfactory compromise which gives appropriate weight to the commercial judgement of the consortia has now been agreed.

Role of BT

This further delay will also enable the role of BT in cable operations to be satisfactorily resolved. It has not proved easy to define BT's position on ownership and to structure BT's cable interests so as to prevent hidden cross-subsidisation from BT's other activities.

Nevertheless, BT's role in cable will be important. With the growing convergence between cable and telecommunication systems, they are likely to be strong supporters of the advanced technology (switched star systems) necessary for the rapid development of interactive services such as home shopping and home banking.

Economics

The Budget changes in first year capital allowances have had a significant impact on cable finances and have been interpreted by many in the cable industry as representing a change in our commitment to cable. I have

DAWAAV

studied the detailed economics of several of the pilot consortia and although they do now look less attractive, I would still expect the majority to proceed.

We have, of course, in recognition of the companies' financial difficulties, recently extended the terms of cable licences by 3 years.

Cable Authority

Richard Burton, retired Chairman of Gillette Industries, has recently been appointed Chairman of the Cable Authority. First impressions are favourable. Further appointments are due shortly and it is hoped that the Cable Authority will be in full operation later in the year. This should improve the co-ordination problems within Government.

The Pilot Franchises

It would be unfair to assume from the above that the pilot companies have lost their enthusiasm. Many of them are run by the very entrepreneurial people whom we wish to encourage. They are naturally impatient to make progress and have found it difficult to negotiate with many different parts of Government.

Some of the consortia are not as soundly based as others and it is true that some of the initial plans were naive rather than considered. However, I would still expect most of the 11 to be around in a year's time. (See Annex.)

The Programme Providers

National cable channels are already appearing and there is considerable creative and entrepreneurial activity in this area.(See Annex.)

Conclusion

Our cable policy has not lost its way. It was inevitable that our decision to introduce cable as quickly as possible would lead to some delays as unforeseeable problems arose. Both Government and the cable industry are developing and learning all the time.

It is true that the initial euphoria has now been replaced by cautious realism. Nevertheless, most of the 11 pilot franchises look certain to go ahead and this will lead to the cabling of perhaps 1 million households.

DAWAAV

The next round of cable franchises will not be far behind. There is considerable interest in this round and it is likely that the Cable Authority will be able to invite applications by the end of the year.

The cable revolution is therefore well launched. It will bring with it real jobs and wealth to the economy and a diversity of choice in entertainment and services not yet perceived. All of this has stemmed from our original policy initiatives and our willingness to leave the development of cable to market forces.

DLP.

DAVID PASCALL

DAWAAV

Annex A

The Pilot Franchises

Windsor - this consortium always was rather more marginal than the others and the Budget changes have made it vulnerable. Windsor do not have a big enough area of high density housing and the Home Office have accepted proposals for extending their area.

Merseyside - is also shaky owing to lack of success in finding financial backers. Robert Maxwell has proposed taking over 75% of this consortium and discussions are proceeding. If successful, the consortium looks secure.

Westminster - one of the most aggressive consortium whose future seems reasonably assured. They have lobbied hard on the Budget and on the relationships with BT and do seem to have the drive and imagination necessary for success.

Guildford - this is a loss leader for Rediffusion and essentially a showcase for their new technology. They look safe as long as Rediffusion take a long-term strategic interest in cable.

Swindon - this consortium contains Thorn EMI and seem secure. A 13 channel service starts next week, the first "broadband" cable service.

Coventry - also involves Thorn EMI and looks secure.

Glasgow - making good progress.

Aberdeen - solidly based.

Croydon - looks reasonably secure after some difficulties in obtaining financial backers.

Belfast - as so often in Northern Ireland, largely an unknown quantity.

Ealing - this is a borderline case. The consortium is 75% owned by Ladbrokes who are taking a very hard-headed view. They are currently negotiating revised terms on technology and business plans with the DTI.

BT are involved in 5 of these 11 consortia - Merseyside, Westminster, Coventry, Aberdeen and Belfast. Home Office and DTI licences have been issued to Guildford, Swindon, Glasgow and Croydon.

DAWAAV

The Programme Providers

TEN, The Entertainment Network, is the first premium feature film channel to offer cable the appeal of big name movies. TEN is backed by Rediffusion, Rank, MGM - UA, Paramount and Universal. It has been on the air since March serving Rediffusion's upgraded old technology systems in certain parts of the country.

A second glossy feature film channel has also just been launched. Premier is backed by Thorn EMI, Goldcrest and a clutch of American film studios and cable outfits.

Music Box is a British-based European-wide satellite to cable music channel offering pop music. Its success seems assured.

Sky Channel, the pioneer satellite to cable service is owned by Rupert Murdoch and is already pumping out pulp re-runs with supporting advertisements.

Finally, Screen Sport is the first national cable sports channel although it does not include many of the big sports held by the current networks.

NBPM

AT 3/8

PRIME MINISTER

3 August 1984

CABLE

There is much press comment that our cable policy has lost its way. Many of the pilot franchise companies are disappointed and frustrated. These views are largely unjustified, although to some extent understandable.

Licences

When the 11 pilot franchises were selected in November last year, we had hoped that these companies would be up and running well before the Cable and Broadcasting Bill became law. However, the Bill was enacted on 26 July 1984 and there have been considerable delays in the issue of licences.

Cable companies require two licences - one from the Home Office to offer a cable programme service and one from the DTI for the technology of the system. So far the Home Office has issued four licences. No DTI licences have yet been issued.

It was originally anticipated that DTI licences would be issued on an interim basis under the 1981 Telecommunications Act. Delays now seem to have ruled this out except perhaps for the four companies with Home Office licences. For the rest, it is now likely that the DTI licences will be issued under the 1984 Telecommunications Act. This has the considerable advantage of conferring PTO status on the cable companies which will enable them to short-cut many planning procedures. Allowing for statutory consultation periods, these licences should be issued sometime in the Autumn.

Role of BT

This further delay will allow certain outstanding issues to be resolved. Several of these concern the role of BT in cable operations.

There has been a difficult negotiation with BT to ensure that cable operations are at arm's length from BT's other activities in order to prevent cross-subsidisation. At the same time BT wish to offset the cost of cable against their taxable profits. A likely compromise allows BT PLC to finance local cable systems but then to lease these assets to an arm's length company - BT Cable PLC. This should meet the objectives of both parties.

The other main argument is who should hold the DTI licence. BT argue that if they are financing the assets

DAWAAV

they should hold the licence. DTI argue that the licence should be held by the franchise company. This argument is likely to be resolved by making an exception in the case of the pilot franchises.

The role of BT in cable will be important, both because of the growing convergence between cable and telecommunications systems and their support for advanced switch-star technology. This technology will allow the rapid development of interactive services. However, it is less likely to show an early return than the cheaper tree and branch system which will largely restrict cable to entertainment services. Pilot franchise companies were selected on their willingness to install advanced technology.

Market Forces

The DTI have attempted to impose obligations, particularly on coverage, upon the cable companies in return for monopoly franchises. This tends to conflict with our general desire to leave the development of cable to market forces. This problem is likely to be satisfactorily resolved by requiring the companies to show a general willingness to cable as widely as possible subject to commercial judgement.

Economics

The Budget changes in first year capital allowances have had a significant impact on cable finances and have been interpreted by many in the cable industry as representing a change in our commitment to cable. I have studied the detailed economics of several of the pilot consortia and although they do now look less attractive, I would still expect the majority to proceed.

The Government has, in recognition of the companies' financial difficulties, extended the terms of licences by 3 years.

Cable Authority

The Home Office are having trouble finding a Chairman for the Cable Authority. Several people have been approached but nobody has yet been willing to take the job. It is hoped that the Cable Authority will be up and running later in the year. This will also tend to ease the co-ordination problems within Government.

DAWAAV

The Pilot Franchises

It would be unfair to assume that the above indicates that the pilot companies have lost their enthusiasm. Many of them are run by the very entrepreneurial people whom we wish to encourage. They are naturally impatient to get on with developing the business opportunities and have found it difficult to negotiate with many different parts of Government.

Some of the consortia are not as soundly based as others and it is true that some of the initial plans were naive rather than considered. However, I would still expect most of the 11 to be around in a year's time.

Windsor - this consortia always was rather more marginal than the others and the Budget changes have made it vulnerable. Windsor do not have a big enough area of high density housing and the Home Office have accepted proposals for extending their area.

Merseyside - is also shaky owing to lack of success in finding financial backers. Robert Maxwell has proposed taking over 75% of this consortia and discussions are proceeding. If successful, the consortia looks secure.

Westminster - one of the most aggressive consortia whose future seems reasonably assured. They have lobbied hard on the Budget and on the relationships with BT and do seem to have the drive and imagination necessary for success.

Guildford - this is a loss leader for Rediffusion and essentially a showcase for their new technology. They look safe as long as Rediffusion take a long-term strategic interest in cable.

Swindon - this consortia contains Thorn EMI and seem secure. Digging has started and 5,000 homes will have a 16 channel service by September.

Coventry - also involves Thorn EMI and looks secure.

Glasgow - making good progress.

Aberdeen - solidly based.

Croydon - looks reasonably secure after some difficulties in obtaining financial backers.

Belfast - as so often in Northern Ireland, largely an unknown quantity.

DAWAAV

Ealing - this is a borderline case. The consortium is 75% owned by Ladbrokes who are taking a very hard-headed view. They are seeking greater flexibility on technology and business plans than DTI are at the moment prepared to concede.

BT are involved in 5 of these 11 consortia - Merseyside, Westminster, Coventry, Aberdeen and Belfast. Home Office licences have been issued to Guildford, Swindon, Glasgow and Croydon.

The Programme Providers

National cable channels are already appearing and there is considerable creative and entrepreneurial activity in this area.

TEN, The Entertainment Network, is the first premium feature film channel to offer cable the appeal of big name movies. TEN is backed by Rediffusion, Rank, MGM - UA, Paramount and Universal. It has been on the air since March serving Rediffusion's upgraded old technology systems in certain parts of the country.

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Conclusion

Our cable policy has not lost its way. It was inevitable that our decision to introduce cable as quickly as possible would lead to some delays as unforeseeable problems arose. Both Government and the cable industry are developing and learning all the time.

It is true that the initial euphoria has now been replaced by cautious realism. Nevertheless, most of the 11

pilot franchises look certain to go ahead and this will lead to the cabling of perhaps 1 million households.

The next round of cable franchises will not be far behind. There is considerable interest in this round and it is likely that the Cable Authority will be able to invite applications by the end of the year.

The cable revolution is therefore well launched. It will bring with it real jobs and wealth to the economy and a diversity of choice in entertainment and services not yet perceived. The impetus for all of this stems from our market-based and far-sighted policies.

DLP.

DAVID PASCALL

DAWAAV

From: THE PRIVATE SECRETARY

Cc DP

NBPM AT 31/7

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

31 July 1984

Dear Andrew,

DBS JOINT PROJECT: THIRD ELEMENT

You will recall that, following the Ministerial discussions recorded in your letter of 1 May, the Home Secretary announced in Parliament the Government's proposals for a DBS Joint Project to bring together the BBC, ITV companies and a 'third element'. Since then the necessary legislation has been enacted as additions to what is now the Cable and Broadcasting Bill Act 1984. Meanwhile the IBA has, as requested, been receiving expressions of interest in participating in the 'third element'.

The Home Secretary has now received and considered the advice of the IBA on suitable 'third element' participants and he will be announcing later today in reply to an arranged PQ the names of the potential participants who may go forward to negotiate with the existing broadcasters. I attach a copy of the text of the Question and Reply.

Both successful and unsuccessful applicants will be informed at the time the Reply is given, as will the BBC, the IBA, and ITCA. The IBA included in their advice to the Home Secretary a general suggestion in broad terms of the sorts of proportions which the independent participants might take up in the project. This has been communicated, purely as an indication, to those successful, but the Home Secretary regards the actual shares as matters to be determined in the course of the negotiations between the parties.

In giving their advice the IBA drew attention to the fact that one of the recommended companies, Consolidated Satellite Broadcasting Limited, is at present a wholly owned subsidiary of Consolidated Productions Limited (CPL), and that CPL is registered not within the European Community but in the Bahamas. This would mean that CSB Limited would as matters stand be disqualified from participation in the project under the terms of section 43 of the new Act. The company's solicitors however have registered their willingness to adjust the structure to ensure that CSB Limited is not controlled by a disqualified person. The Home Secretary is therefore indicating to CSB that his willingness to see them enter negotiations is conditional on these changes being made, and on a reduction in the size of the stake in the parent company held by Radio-tele-Luxembourg (RTL)

The Home Secretary will not exercise his statutory power of approval under the Act until the various participants have voluntarily reached a suitable agreement.

/In order

Andrew Turnbull, Esq

In order to maintain momentum, however, you will see that he has asked for a report on progress towards agreement to be made to him by the end of September 1984.

I am sending a copy of this letter to the Private Secretaries to the Chief Secretary; Secretary of State for Trade and Industry; Chancellor of the Duchy of Lancaster; and to Sir Robert Armstrong.

Yours ever,

Christine.

MRS C J HEALD

Tuesday, 31st July, 1984.

Written No. 217

Mr. Michael Mates (East Hampshire): To ask the Secretary of State for the Home Department, if he will make a statement about participation in the third element in the Direct Broadcasting by Satellite Joint Project which he announced in the House on 8th May, Official Report, columns 751-4.

MR. LEON BRITTAN

In announcing to the House on 8th May the Government's decision regarding a Joint Project to provide the first stage of British DBS services I expressed the importance which the Government attached to providing an opportunity for companies and organisations additional to the BBC and ITV companies to participate; and I explained that I should be seeking the help and advice of the Independent Broadcasting Authority (IBA) in identifying suitable participants from among those who expressed an interest (Official Report, vol. 59, cols. 751-4).

I have now received and considered the IBA's advice and, after considering it, I have today indicated to the companies listed below that I would be prepared to give my approval, under section 43(1) of the Cable and Broadcasting Act 1984, to their participation in the group to provide DBS programmes, subject to the successful conclusion of negotiations between them and the BBC and participating ITV companies and the resolution of certain other outstanding points.

/As previously

As previously indicated, the BBC will be able to take up a half share of the project. In the light of the IBA's advice I envisage that, subject to final negotiation, the participating ITV companies should between them have a 30 per cent. share.

I am grateful to the IBA for their prompt assistance, and to all companies and individuals who responded. The degree of interest expressed is encouraging, and I now hope that the bodies concerned can proceed to a rapid and fruitful negotiation, so that I can exercise my statutory power of approval early in the new Session of Parliament. To that end, I am asking for a report on progress towards agreement to be made to me my the end of September at the latest.

The companies are (in alphabetical order);

Consolidated Satellite Broadcasting Ltd
Granada TV Rental Ltd
Pearson plc
Thorn EMI plc
Virgin Group Ltd

BROADCASTING : DBS & PES

RESTRICTED

NBPM AT 4/7

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5379
GTN 215)
(Switchboard) 215 7877

(Special Adviser's Office)

Secretary of State for Trade and Industry

Andrew Turnbull Esq
Private Secretary to Prime Minister
10 Downing Street
London SW1

3 July 1984

Dear Andrew

DIRECT BROADCASTING BY SATELLITE

Following the Prime Minister's meeting on this subject on 1 May I thought that she would be interested in the outcome of a final meeting I chaired with representatives of the broadcasters, set manufacturers and Unisat on 13 June. I attach a full note of the meeting.

In summary, I was encouraged by the commitment of all those concerned towards the start of a DBS service in the latter half of 1987. Whilst a number of matters remain to be settled, it was agreed that these should not affect the start-date. Of most importance among these is the non-broadcasting element of the consortium, on which the IBA are due to make recommendations to the Home Secretary by the end of July. It is then hoped that once in place the consortium could come to a speedy resolution with Unisat.

I am copying this letter to the Chancellor of the Duchy of Lancaster, the Chief Secretary, the Home Secretary, Sir Robert Armstrong, Robin Nicholson, and David Pascal.

Yours sincerely
Kevin Bright

pp J M STERLING [signed by Mr Sterling and signed in his absence]

DBS : MR STERLING'S MEETING ON 13 JUNE 1984

Start date

Mr Sterling said that the necessary changes to the Cable Bill to provide for a DBS consortium were being made, and that the purpose of this meeting was to hear the views of participants on the prospects, in the light of this, of getting DBS operational around Summer 1987.

Mr Young reaffirmed the BBC's commitment to DBS, but said they were anxious that the transmission standard should be finally settled and that sets would be available in time, in the right quantity at the right price. Lord Thomson said that the IBA, and the BBC, would be discussing the legislation with the Home Office; the key issue to be settled was the third element in the consortium, for which there had been an advertisement with a deadline of 20 June. The IBA would, after consulting the BBC and ITCA, meet on 18 July to decide on a recommendation to the Home Secretary, whose final decision it would be. Mr Fox expressed ITCA's enthusiasm for the new DBS proposals.

On the DBS transmission standard, Mr Willott said that France was now expressing enthusiasm for the MAC standard, provided this was duo-binary (D2) MAC, which was better adapted for relaying on cable systems; discussions were taking place on the possibility of achieving compatibility, if not commonality, with C-MAC. As their acceptance of MAC was thus conditional, they had given no indication as to when they might switch to MAC from their initial SECAM service. It was hoped that Germany might yet follow the UK and bring France with them. Mr Cohen of Mullard said that compatibility might involve some minor change to the C-MAC specification; but it would be possible to make a chip-set which could be software-driven to adapt to the different standards. In response to a question from Mr McCrirrick, he said that this would not affect the capability of the C-MAC standard; any effect on timing would depend on a variety of other factors. Mullard's commitment to the development of the chip was however not in question. Mr Timsley of Plessey confirmed that the development of chips and sets was achievable in three years.

Mr Sterling, summing up on this point, said that it now seemed clear that the UK's decision to go ahead on its own terms held out the best prospects, not only for a UK service, but of bringing others into line behind us. This did not rule out making any minor changes necessary to achieve compatibility with others, if that were possible, but it was important that we did not slow down our own programme in the hope of securing agreement with other countries.

Receivers

Mr Sterling next sought the set manufacturers' views on the timing and availability of sets or converters. Mr Norman said Thorn-EMI could expect to be in production in three years, and up to full capacity by the end of 1987 - several thousands of sets per week.

Mr Cohen said precise numbers would depend on the yields of chip sets, but he envisaged output rising to several tens of thousands per week by Autumn 1987. Mr Timsley confirmed that a realistic target was 100,000 converters or receivers on the market by late 1987. Mr Grainger said GEC had as yet made no decision on whether to manufacture the receivers.

Sir Clive Sinclair expressed an interest in entering the market with an adaptor selling for about £100, but saw this as a short-term market, and only an intermediate step to providing sets, which he considered, in order to sell, would have to offer the additional feature of higher aspect ratio - a 5X3 display as against the present 4X3. It was however important that there should be enough broadcast material using this format; and the broadcasters pointed out that this was limited to films, as adopting it more widely would mean changing studio equipment. They also expressed doubts about being able to offer a service satisfactory in both formats. It was felt that this might be the next step after the enhancement offered by MAC, and that adding another element now would create additional problems. Mr Andrews of the National Rental Association pointed out that at least half the viewers to start with would be using adaptors on their existing sets and that the build-up of set sales might be inhibited if it were necessary to have a second set. Sir Clive however felt that people would be more likely to buy sets if they offered films at home nearer to a cinema standard, and that a 4X3 picture could easily be shown on a 5X3 set with the edges blank; whereas a 5X3 picture would still be acceptable on a 4X3 set. He was not asking for such a service to start in 1987, but for a commitment to it and the adoption of this format for MAC sets; but considered that, after the change to MAC, the chance to make this further change would not come again for many years. Mr Sterling pointed out that if people considered that such a change was in prospect in the not too distant future, this would depress demand for conventional sets. It was left that the broadcasters and manufacturers should meet separately to consider this further, but it was agreed that it was important work on this did not affect the start date. Other points which remained to be resolved in connection with the equipment were the software for the chips (rather than the chips themselves); and the encryption specification, on which it was agreed to form a working party of the broadcasters and manufacturers.

On the subject of the cost of the equipment, Thorn-EMI put the retail price, including taxes and installation, of dish, outdoor and indoor units and converter at £400, falling within perhaps eighteen months to £300; this gave a rental price of about £12 per month (to which the Budget had added 50p) - although as Mr Young pointed out, this would vary with different amortisation policies. Plessey put the ex-works price for the same package in volume at £225, falling in due course. GEC agreed with the price of £400. Sinclair expected to be able to offer the equipment for an ex-works price of £100. The National Rental Association had received a quote from Luxor for 100,000 units over two years of £185. It was pointed out that these figures would be reduced where there were communal aerials.

ITCA remained concerned at the number of sets that would be actually in place at the start of the service. Mr Moriarty pointed out that by 1987 there should be a substantial potential audience on wideband cable systems, which would be required by the Cable Bill to carry the DBS services. The meeting did not consider that there would be any additional problems in supplying sets for DBS reception over cable and the price of the units would be about the same, less the external units. In answer to a question from Mr Sterling, Mr Andrews said installation of sufficient units would not be a problem if the take-up could be adequately forecast, which in turn depended on the services offered.

Unisat timetable

Mr Gruneberg said he was encouraged by the enthusiasm expressed at the meeting, which was shared by the Unisat partners. The normal timescale from inception to handover of a satellite was three-and-a-half years, but British Aerospace and GEC were determined to improve on this to enable the service to start in the Autumn of 1987; he recognised the point made by Mr Cohen and ITCA that the service needed to start for the Autumn/Winter season, and that a few months' delay could mean a delay in the service of a year. To that end, Unisat were anxious to start discussions with the new consortium.

Mr Young hoped that these discussions could start with the IBA representing the interests of the third partner, who would have to accept, to some extent, the arrangements which were already in place. Lord Thomson however felt it would be wrong to go ahead before the consortium, including the new element, had been formed. Mr Moriarty, outlining the procedures for finding the third element, explained that the IBA would, by the end of July, submit its advice to the Home Secretary; once he had made his decision, the detailed negotiation of the consortium would start. The Home Secretary was determined that the third element should have the opportunity of genuine negotiations over all the arrangements. However, as Mr Fox added, the detailed negotiation of the consortium could run concurrently with the negotiation with Unisat, the relationship with whom was in any case central to the consortium's nature. Mr Gruneberg, whilst hoping discussions could start earlier, recognised that there could be no commitment until the consortium was finally in place with the Home Secretary's approval; on the other hand, he hoped that soon after that

there would be a consortium Chairman to whom Unisat - who could be ready with a contract very quickly - could talk.

In conclusion, Mr Sterling thanked all the participants, saying it appeared that matters could now be taken forward without a further meeting of this kind. In return Mr Young thanked Mr Sterling, and hoped he could be called upon again if it did prove necessary.

J L STARTUP
PPU, DTI

19 JUNE 1984

ANNEX 1

DBS MEETING : 13 JUNE 1984

CHAIRED BY : MR STERLING

IBA

Lord Thomson
Mr Whitney
Mr Blythe (Chief Assistant to Director-General)
Mr Witham (Assistant Director of Engineering Policy)
Mr Salkeld (Head of Satellite Engineering)

BBC

Mr Young
Mr Cotton
Mr Milne (Director-General)
Mr McCrirrick (Director of Engineering)
Mr Holmes (The Secretary)
Mr Taylor (Deputy Director of Finance)
Mr Erwin (General Manager of DBS Development)

ITCA

Mr Fox
Mr Shaw
Mr Tessler
Mr Green (Co-ordinating Engineer at ITCA)
Mr Scolliday (The Secretary)
Mr McCall (Managing Director of Anglia Television)

UNISAT

Mr Gruneberg

Home Office

Michael Moriarty

Thorn-EMI

Mr R F Eade (Director of Commercial Technology)

Mr Norman (member of Thorn-EMI and Chairman of Consumer Electronics Division).

Mullards

Mr Cohen

DTI

Mr Leeming
Mr Willott
Mr Cobb

GEC McMichael

Mr Grainger

Plessey (Scientific Atlanta Ltd)

Mr Timsley (MD)
Dr Keith Baugham

Sinclair's

Sir Clive Sinclair
Mr Mike Pye

National Rental Association

Mr Bill Andrews (Chairman). (Also Managing Director of Granada Rentals).

BROADCASTING : DBS

PZ5

File

10 DOWNING STREET

Mr Pascall

Do you know what is happening to DBS? Is the Home Secretary's tactic of appearing to support it while letting it collapse under its own weight with no blame attaching to the Government now beginning to work.

AT

26/6

Mr Turnbull

It is too early to say. Progress is being made slowly. 15 private sector companies have applied to join the consortium (including Thorn, we believe) and these have to be interviewed by IBA. The Home Secretary and Jeffrey Sterling are still playing prominent roles. Unison seems to have missed a 1987 launch but talks with Unison have not yet started. So much for the earlier panic. So in summary it is unclear whether the DBS consortium will fly or crash. If the latter, the 15 applicants have given IBA confidence that a commercial DBS could be viable. BBC are talking of high definition TV.

TP 26/6

Cable and Broadcasting Bill *[Lords]*

Order for Second Reading read.

4.21 pm

The Secretary of State for the Home Department (Mr. Leon Brittan): I beg to move, That the Bill be now read a Second time.

The Bill marks a major step along the road of increasing opportunities for consumer choice in the provision of broadcasting services. The pace of technological change is such that we are no longer, as with earlier broadcasting legislation, talking about the addition of one new service, but of the potential for a whole range of new services—some local, some national, some financed by advertising, others by various kinds of pay television.

The Bill deals with two forms of programme distribution that have already been the focus of much debate — cable and direct broadcasting by satellite — DBS. Both create new industrial, technological and cultural opportunities. DBS is more obviously an extension of conventional broadcasting, with its ability to achieve universal coverage and its use of frequencies which are available in only limited supply. Cable, on the other hand, occupies more than a halfway house between broadcasting and telecommunications. There is no theoretical limit on the number of channels that can be provided and, unlike DBS, cable has the potential for providing interactive services. Cable services, however, can be provided only where cable systems are installed, and that means that it is bound to be a number of years before even half the homes in the country will have the opportunity to subscribe.

The Government's approach to both those new developments is to create the framework within which investors can reach their own decisions on the risks and opportunities involved. The opportunities are real, but so are the risks. At the international level we have in recent times seen, for example, how some firms have made large sums of money out of the video cassette recorder while others have lost large sums of money with the video disc player. In the case of both cable and DBS the Government believe that the right decisions are more likely to be taken if assessments of market potential are taken by those who stand to gain or lose by the outcome. For the Government to invest large sums of taxpayers' money would be quite wrong. That means that the Bill is not a blueprint for what will happen but rather an enabling measure designed to unlock the door to the future for whose who are willing to go through it.

I should first like to concentrate on cable, which currently accounts for the lion's share of the Bill. The publication of the report of the Prime Minister's information technology advisory panel in April 1982 brought the whole question of cable development into the public arena; and since then we have had three opportunities in the House to debate the way forward. The foundations for part I of the Bill were laid by the inquiry chaired by Lord Hunt of Tamworth. Although a few of the details have changed, the broad approach is the one advocated by that inquiry. The Hunt inquiry recommended the setting up of a new Cable Authority, for which the Bill provides and which is to be responsible for issuing licenses to cable operators, for exercising a modest degree of continuing oversight over their activities and for reviewing their performance from time to time in the light of such other applications as might be made from aspiring operators.

The Bill does not, of course, cover the telecommunications and technology aspects of the development of cable. The licensing of cable systems, as opposed to services, will be a matter for my right hon. Friend the Secretary of State for Trade and Industry and the Director General of Telecommunications under the Telecommunications Act 1984, which recently completed its passage through this House and another place. Together, those two pieces of legislation will provide a clear and settled regulatory framework against which cable can develop.

We made it clear in our White Paper that we were most anxious not to lose the momentum that had already been created while this framework was drawn up. That was why we decided to launch the pilot project exercise. We were glad to be able to agree in principle to allowing 11 operators to go ahead with their proposals. In addition, I have now authorised a number of existing cable operators to offer new services under their present systems.

Part I of the Bill establishes the new regime for the regulation of cable services. Clause 1, together with schedule 1, provides for the setting up of the Cable Authority. The authority is to consist of a part-time chairman and between three and 10 other members and will be financed out of licence fees paid by the operators. Our intention is to appoint a chairman and six members in the first instance, but the number can be adjusted if that proves necessary in the light of experience. I hope to be able before very long to announce the appointment of a chairman-designate.

Clause 2 defines the cable programme services to which the various clauses of the Bill apply and, most importantly, those services that will be licensable. In general, licensable services will be those that are offered to the public, whether to two or more private homes, as in the case of diffusion services or, as in the case of restricted services, to a place, such as a cinema or public house, where members of the public will come together to watch them. A private service sent from one point to one other where the general public do not have access will not be licensable, nor will a service which, broadly speaking, is not analogous to television or radio. The kind of services that will be subject to the competitive franchising procedures under later clauses will be prescribed by statutory instrument under clause 2. This is because, with every-changing technology, it is necessary to retain some flexibility, but we have made it clear in the White Paper and elsewhere that we are talking about services provided over the new wideband systems. It is those services that, under clause 4(8), it will be the duty of the Cable Authority to promote.

Clauses 3 to 9 set out the procedures to be followed by the Cable Authority in the licensing of cable programme services, including the detailed franchising process for diffusion services provided over new wideband systems. In the case of these prescribed diffusion services, licences will run for up to 12 years in the first instance and eight years thereafter. The Cable Authority is required to give an opportunity for competitive applications in each case and to allow for local views to be expressed before reaching its decision. It must also work in close consultation with the telecommunications licensing authorities. Of particular importance is clause 7, which

sets out the matters that the authority must take into account in considering the issue of a licence for a prescribed diffusion service.

Clause 8 sets out restrictions on the holding of licences by particular individuals and bodies. The main objectives are, firstly, to prevent the control of licensed companies resting with foreign, political or religious interests; secondly to guard against excessive concentrations of editorial control; and, thirdly, to forestall the possible development of anti-competitive and other practices that might be contrary to the public interest. In fulfilment of undertakings given in another place, we shall be bringing forward amendments to give the Cable Authority a duty to guard against excessive accumulations of interests in separate cable companies.

Clauses 10 to 15 contain a number of key provisions that place certain duties on the authority in relation to the content of programmes and advertisements. Under clause 10, the authority must see that programmes maintain, among other things, proper standards of taste and decency, and accuracy and impartiality in the presentation of news. Of particular importance is the requirement on the authority to ensure that "proper proportions" of material to be included in programmes are of British or other EEC origin. There was considerable discussion on this provision in another place. I know that there are many who believe that there should be a fixed statutory quota from the outset, but the Government believe that the approach embodied in the Bill is the right one. There needs to be flexibility so that the Cable Authority can take account of all the relevant circumstances, including changes over time in the availability of suitable domestic material at a price that operators and the consumer can afford. It is our wish to see cable increasingly draw on, and generate, domestic programme material, but it is not in anyone's interest to try to impose unrealistic burdens at the outset.

Clauses 11 and 12 deal with other programme matters and with the framework of rules which are to apply to advertising. These are less detailed than in the case of independent broadcasting and we believe that there will be greater scope for new forms of advertising and for sponsorship, subject to a code of standards laid down by the Cable Authority. Amounts of advertising on cable will be unrestricted, except where the nature of the service makes it appropriate for the ITV limits to apply.

Mr. Gerald Kaufman (Manchester, Gorton): I do not know whether I heard the hon. and learned Gentleman correctly. How does that chime with clause 12(3)? He seems to have turned that on its head by what he has just said.

Mr. Brittan: That is not correct. On detailed consideration of the Bill, I believe that the right hon. Gentleman will find that what I have said is consistent with what has been said publicly, in the Bill and in another place about what is proposed.

Two further important duties are imposed upon the authority by clauses 13 and 14, which are designed to protect the position of existing broadcasting services. Clause 13 contains the "must carry" rule under which the existing BBC and IBA services will have to be transmitted as part of the licensed cable service. Clause 14 safeguards the position of viewers of existing services from the "creaming off" of popular events by cable. We shall be bringing forward in Committee amendments designed to improve the drafting of both clauses; and in relation to the events covered by clause 14, we shall also introduce a new provision designed to reduce the risk of their being creamed off by foreign broadcasting services aimed at this country. We shall also, separately, be introducing new provisions to guard against the dishonest reception of cable and satellite services.

Clause 15 imposes upon the Cable Authority a duty to consider and adjudicate upon complaints of unjust or unfair treatment or unwarranted infringement of privacy in cable programmes, the type of complaint which in relation to the existing broadcasting services is currently handled by the Broadcasting Complaints Commission. The Government have, however, been persuaded by the arguments in another place that this duty would be more appropriate to the Broadcasting Complaints Commission, with its existing expertise, than to the Cable Authority. We shall accordingly be tabling new provisions to take the place of clause 15.

That is a brief summary of the provisions which constitute the core of part I. They are supplemented by clauses which deal with the powers and finances of the authority and with various amendments to the civil and criminal law. Clauses 16 to 18 set out the range of enforcement powers which are available to the authority. Clauses 19 to 22 deal with the finances of the authority and the submission of its annual report to the Home Secretary. The authority will be expected to become self-financing at the earliest possible date; but for the initial period the Government are willing to make up to £2 million available to it on a loan basis as working capital. Clauses 23 and 24 make changes to the Copyright Act 1956 to take account of the development of cable. Cable operators are given a copyright in the material which they put out and the position of other rights holders with regard to the use of their works over cable is strengthened. This is a particularly intricate area of the Bill and some further drafting amendments will need to be made in Committee. We made it clear in the White Paper that cable operators would be subject to the general law on obscene publications, and clauses 25 to 29 clarify and extend the existing law relating to obscenity, as well as dealing with incitement to racial hatred, defamation and the use of wireless telegraphy apparatus. Clauses 30 to 35 make supplementary provision in relation to part I.

Part II deals with broadcasting matters as opposed to cable. Before I come on to the major question of satellite broadcasting, I should like first to say a few words about a further new provision we propose to introduce. The spectrum available for VHF radio broadcasting will extend during the next decade or so and, as we announced last year, is likely to offer the facility for two new national networks in 1990. One of those will go to the BBC, so that Radios 1, 2, 3 and 4 will each have a VHF network of their own. The other will go to the IBA, to provide for the first time a service of independent national radio.

Decisions on the precise arrangements for the service and its regulation are a matter for the future, but the creation of a national network of transmitters is a substantial task which, if it is to be carried out economically and still be ready for 1990, should begin in just over a year's time. I shall therefore bring forward in Committee brief enabling powers to allow the IBA to begin the programme of transmitter construction before a

[Mr. Brittan]

contractor is appointed, just as it was empowered to install the transmitters for channel 4 before final decisions on that service had been taken.

I come now to the subject of DBS. Hon. Members who follow this subject in detail will be aware of a good deal of speculation in recent weeks about a possible new approach which would assure the initial stage of DBS for this country. Part of my task today is to tell the House of that approach and the implications for the Bill. First, I shall say a few words about the DBS provisions in part II of the Bill, and the general policy background.

As hon. Members will recall, DBS is a means of transmitting television and sound signals from a single transmitter in space direct into the home, where the signals are received with the aid of a small dish aerial and converter equipment. DBS signals can, and will, also be received at the head ends of cable systems and distributed like other cable programmes. However, cable is not necessary as a means of distribution—in contrast to the programme services which are now beginning to be transmitted by low-powered telecommunications satellite for distribution as part of the package of programme services provided by cable operators.

The United Kingdom, like every other European country, has been alloted by international agreement five DBS channels. The Government's decision, announced in March 1982 by my predecessor, now Lord Whitelaw, was to allow and facilitate this opportunity to be taken, for technological and industrial as well as broadcasting reasons. Hence Lord Whitelaw said two years ago that the BBC would be authorised to go ahead with plans for a two-channel service, using a satellite system provided by the Unisat consortium. At the same time he looked forward to the participation of the independent sector in DBS, once a legislative and regulatory framework had been created. That is what part II seeks to provide.

Part II empowers the IBA to provide DBS services. The IBA will be the broadcasting authority and, wherever relevant, its powers and responsibilities under the Broadcasting Act 1981 will apply to DBS also. The IBA would provide DBS services, as it does terrestrial services, through contracts with programme companies, chosen through a franchising process. Each DBS franchise would last for 12 years, in recognition of the fact that the successful applicant would bear the full responsibility and liability fr satellite provision. Services could be financed by subscription or advertising or both, and, as and when there was a sufficient level of profit, would be subject to levy. In terms of the IBA's finances, independent DBS will have to stand on its own feet. The rentals received from terrestrial television will not be allowed to subsidise the IBA's DBS operation unless exceptionally the authority applied for my consent and I made a direction to that effect. Any such direction would have to be laid before Parliament.

The Government remain committed to the framework I have described, of permitting competing BBC and independent sector DBS services, for the longer term. We have, however, accepted the case that has been put forward that something different is needed for the initial stage of facilitating DBS. First, DBS is a high-risk, high-cost venture which would initially be a heavy burden for any single operator. Secondly, its viability will depend on the rate of build-up of its audience, who will have to incur appreciable expense to equip themselves to receive a service. Financial projections suggest that a service will not break even until it can attract some 2 millon subscribers, and that will take some years. There are real doubts whether there is room, from the outset, for two services competing for an audience. These uncertainties led the BBC to explore the opportunities for partnership with others, latterly and in particular with the IBA and ITCA, the association of ITV companies. While the Government were not the prime mover in these talks, we have stayed in close touch with them, as we want to see an opportunity provided for a British DBS service to be established on a firm footing. We have seen our task as not to coerce anyone into a particular framework for DBS, but to listen to the arguments and be ready to play our part in creating the conditions in which a venture worthy of support can go forward.

Having reviewed the case put forward, the Government have concluded that the best hope of securing a good quality British DBS service in the late 1980s lies in a joint project to bring together the talents and experience of those of the existing broadcasters who wish to participate, together with a significant proportion of outsiders. That will mean some additional legislative provision to create the necessary framework, and I shall be bringing forward in Committee detailed proposals for the purpose. Meanwhile, the House and those outside with an interest in the project, will wish me to set out its main features today.

Mr. Michael Marshall (Arundel): Before my right hon. and learned Friend proceeds, may I welcome the step that he has just proposed to bring together the BBC and the IBA — the Minister knows of my commercial interests. Will my right hon. and learned Friend say whether he hopes to find opportunities for British Telecom to continue its business traffic? Will he also say whether he hopes that there may be opportunities for others besides British Telecom to become involved if there is spare capacity in the new joint DBS project, to provide additional business services?

Mr. Brittan: I am not sure whether I can answer my hon. Friend's question at this stage, but he may be more enlightened about the prospects when I have outlined the general nature of the project that we have in mind.

It is proposed that the joint DBS project will be provided by a joint company or consortium whose participation will be divided between the BBC and the independent sector. The BBC will have a half share of the project. The independent sector will be in two parts. One part, which I would expect to be at least a quarter of the total project, would consist of those ITV companies wishing to take part. I stress that there will be no pressure or coercion. The companies must decide for themselves, because their shareholders' money will be at risk.

The other part of the independent sector would consist of other companies or organisations that express a wish to take part on the terms stated, and are judged suitable to do so. They might make up 20 to 25 per cent. of the total, but the proportions must remain flexible until we see the strength of those who wish to participate. It is in my view essential that an opportunity for participation in this important new broadcasting development should be given to those who do not currently hold ITV franchises. I shall need to be satisfied at the end of the process of selection

and negotiation that a suitable consortium has been put together. I shall, therefore, be inviting the House to confer on me as Home Secretary a power under the Bill to set the seal on the consortium by formally designating it. That does not mean that I see myself, or my Department, playing a substantial role in the selection of the new element in the consortium, which is neither BBC nor franchise holder. Some mechanism——

Mr. Richard Shepherd (Aldridge-Brownhills) *rose*——

Mr. Brittan: Some mechanism will be needed to invite would-be participants to come forward, to sift them and to judge the strength of their claim to participate. I propose to seek the help and advice of the IBA, whose experience and background make it an obviously appropriate body for the purpose. The authority will be inviting interested organisations to get in touch with it shortly for this purpose. I do, however, stress that this is in no sense a normal franchising operation. I shall be asking the IBA to offer me its views on the suitability and financial soundness of private sector participants, and the share of the project that they might appropriately bear.

Mr. Robin Corbett (Birmingham, Erdington): Will the right hon. and learned Gentleman give way?

Mr. Brittan: I shall finish this passage. In framing its advice, the IBA will consult with the BBC, whose attitude to potential members of the consortium is a factor to be taken into consideration.

Mr. Corbett: I am grateful to the Home Secretary for giving way. Is this the same IBA that turned a blind eye when TV-am virtually tore up the basis on which it launched its programme, although that IBA had statutory authority to ensure that TV-am abided by its original agreement?

Mr. Brittan: I do not propose to make changes to the IBA in the Bill. The existing authority will be undertaking the task.

Mr. Kaufman *rose*——

Mr. Brittan: Could I proceed a little further in explaining this aspect? Then I shall give way to the right hon. Gentleman. Perhaps the point that I am making will deal with what the right hon. Gentleman would like to know.

I was going on to say that potential participants will not look to the IBA for firm financial information about the project, on which to base their judgment whether to participate. That information can come only from other members of the consortium with whom, at a second stage, third element participants must negotiate.

At this stage, before any approaches are made, it would be a mistake to be too precise about the kind of contribution that independent participants might make. I should not want to rule out anything in advance. But I hope that some at least would not merely be seeking an investment opportunity but would have the ability to make a positive contribution in an area such as programme provision, financial management, manufacture or rental of equipment.

Mr. Kaufman: The Home Secretary's announcement about the proposed consortium is, of course, not what was expected, in the sense that we awaited the announcement of two DBS channels for the BBC, and possibly two DBS channels for ITV. The Minister is saying that there will be a full consortium between the two organisations, possibly with other outside participation. Can the right hon. and learned Gentleman tell us, because it is a matter of some importance, whether the DBS provision, in so far as it includes BBC participation, will include provision for channels without commercial advertisements? Will all DBS channels under the consortium arrangements have provision for commercial advertisements?

Mr. Brittan: Advertisements will not be excluded, but in the first instance it is proposed that the project should be financed by subscription.

Before I move on from independent participation in the project, I should say that I am well aware of the keen interest in the proposals that is being shown by some of the independent production companies, whose growth has been much stimulated by the outlet for their product provided in the statutory framework for Channel 4. They now seek further outlets. For some of them, possibly in consortium, there may be the option of participation as part of the independent element in the joint project, but I recognise that the scale of investment required may make that difficult. They have suggested, as another possibility, a clear place in programme provision for the joint project. That is a suggestion with which I have much sympathy. I do not at this stage have a specific proposal, but I shall be considering how effect might best be given to it and I invite others who are, or will be, concerned with the joint project to do likewise.

Mr. Shepherd: Earlier, it was said that the Home Office was considering the relaxation of section 19 of the Broadcasting Act, or rather that representations had been made to the Home Office that that might be the quid pro quo for commercial involvement in the Unisat project. Is the Minister considering extensions of existing licences to the independent television companies as a quid pro quo for their involvement in the scheme?

Mr. Brittan: I shall elaborate on those matters later, if my hon. Friend bears with me.

I turn now to some other aspects of the joint project. Like the BBC project from which, in a sense, it springs, it would use the Unisat satellite system. Some fresh negotiation between the consortium when formed and Unisat will be necessary, for various reasons. For example, it is envisaged that the joint project will provide three channels: one films channel and two of mixed programming. That would mean a change from the proposition being negotiated between the BBC and Unisat.

I envisage that the joint project should have a maximum life of 10 years from the date of launch; provisions to be added to the Bill will so provide. Ten years is chosen so as to provide an adequate period over which the project can build up an audience, recoup its initial outlay and move towards profit. I have particularly in mind the needs of the independent sector. Whether the project will last 10 years must depend upon the arrangements regarding satellite provision that the consortium will make with Unisat.

On other financial matters, I wish to make it clear that no public money whatsoever is being invested in or pledged for the project; nor will it be in the future. The Government are in no sense underwriting any part of the costs. The BBC's share of the cost will come not from the licence fee but from borrowing on the money market, under the extended borrowing powers granted to the

[Mr. Brittan]

corporation by an amendment of its royal charter last year. If the worst came to the worst and the project collapsed, it might be necessary for the corporation to draw upon licence fee revenue, with my consent, to settle its debts; but the BBC understands that such a use of licence fee funds would not be recouped through a subsequently enhanced fee. Expenditure of the ITV companies participating in the consortium, just as under part II of the Bill, would not be an offset against the levy payable upon the profits of their terrestrial broadcasting operation.

Turning to the actual programme provision, the House will appreciate that, since neither the BBC nor the IBA as such will be responsible for providing the service, if it is to fit into our pattern of broadcasting arrangements, some responsible joint body will have to be brought into being. That will require another addition to the Bill. But I do not intend that the creation of this joint body, to bear responsibility for the transmission of the programmes and for their standards and content, should involve a large new bureaucracy. I envisage that its members will be drawn equally from the BBC's board of governors and the members of the IBA. It must have a separate statutory existence, since its responsibilities ar not precisely the same as those of either of the existing broadcasting authorities; but nevertheless, I believe that the board's activities can be viewed as a logical extension of those of both the BBC and the IBA. The standards which the service will be required to meet will be those which would apply to a service under part II of the Bill.

As I have said, the project involves high risk, and a substantial investment. The financial projections which the existing participants have carried out show that the venture will have to work hard in its early years to gain audiences and revenue. Substantial losses will have to be borne. Even on favourable assumptions, the project will be making losses, year on year, in the fourth and fifth year of its operation, and will do little more than break even after seven years. Two particular consequences flow from this.

First, while I am anxious that a competitive regime should not be postponed for any longer than is strictly necessary, our objective of establishing a British DBS service on a firm footing could be jeopardised if competition for audiences and revenue fragmented them before they were surely established. Some protection of the project in its early years is therefore justified. In the Government's view, it would be right to postpone bringing part II of the Bill into force until three years have elapsed after the launch of the joint project's services. At that point, the IBA would invite applications under part II and, provided suitable applicants were forthcoming, would issue contracts; so that during the second part of the life of the joint project there could be competition from other DBS channels—in addition, of course, to competition from other cable-borne services, which can of course use telecommunication satellites as a method of distribution to cable head-ends, and alternative systems of delivery such as video-cassette recorders.

Secondly, the ITV companies, which have throughout made clear their wish to be associated with DBS, have stressed that they suffer the particular disability of facing the risk of losing overnight their reason for existence, and hence their ability to raise and service capital, not through any commercial failure but through the operation of the franchising system; the present franchises terminate in 1989. Without some relief from this uncertainty, they have argued, they would not have sufficient financial confidence to engage in a DBS venture beginning in 1987. I have considered this point carefully, and have concluded that I would be justified in making some — but the minimum—departure from the normal arrangements for franchise renewal. I therefore propose to add to the Bill a provision that for 1989, but on that occasion only, the IBA will not be under an obligation to readvertise ITV contracts, but it will retain a complete discretion as to whether to do so or not. This will preserve the general franchising structure, to which we remain committed, and leave the IBA with full powers to do what is necessary to ensure a satisfactory standard of performance. I stress that it does not give any ITV company any guarantee whatsoever that its franchise will be renewed in 1989; it leaves the IBA free to renew without re-advertisement if it considers that the company's level of performance is satisfactory. Alternatively, the IBA may re-advertise if it chooses.

Mr. Gerald Bermingham (St. Helens, South): Does the Home Secretary agree that, effectively, he has just said that, if the ITV companies participate, he will consider extending their period of time? Might not some interpret that as almost an inducement to participate and as against the public's best interests, as they may well want to challenge the various franchise holders of the current ITV systems in 1989?

Mr. Brittan: The hon. Gentleman is mistaken and must have misheard me. I did not in any sense say that the existing companies would be given an extension of their franchise. I said that the obligation on the IBA to re-advertise would not apply, but that it would continue to have a discretion to do so. Therefore, if there was any reason to believe that an alternative service was available, it would be entirely open to the IBA to go through whatever procedures it wished in order to consider renewal of the franchise.

Mr. Tim Brinton: (Gravesham): Perhaps my right hon. and learned Friend will clarify that point. Does he mean that the obligation not to re-advertise would be withdrawn for all ITV companies presently franchised, or only for those that invest in DBS?

Mr. Brittan: I must stress that it is not an obligation not to re-advertise. *[Interruption.]* I am trying to answer my hon. Friend, as I know that he wants to understand the position. The proposition is that for 1989, and 1989 alone, the IBA will not be under an obligation to re-advertise. It will have a discretion to re-advertise if it so wishes—I am talking about all the ITV companies—but it will not be under an obligation to do so.

Mr. Richard Shepherd *rose*——

Mr. Brittan: I must get on.

Mr. Shepherd: I am sure that my right hon. and learned Friend appreciates that I am greatly disappointed that he should have taken that view. Has he considered the American experience, where DBS has not necessitated the extension of monopolies, contrary, perhaps, to the results that will flow from the statement that he has just made in connection with, I believe, section 18 of the 1971 Act? Will he reconsider the need to give those companies the

chance of continuing their monopolies without full scale re-advertising of their licences when they come up for renewal?

Mr. Brittan: I understand my hon. Friend's concern, and there will be ample opportunity to debate that point in Committee.

To sum up this account of my proposals regarding the DBS joint project, I believe that the consortium approach offers the most realistic chance of getting the British DBS service into action within the next three or four years. If those who are negotiating have come to this same conclusion and wish to take this chance, I believe that we should not deny them the framework to make it possible. There will be the opportunity of a stake in the first DBS service both for the BBC and for those who might have sought to participate in an independent DBS franchise. It has a limited life; and the competitive regime, which remains our ideal, will not be long delayed. The choice of independent participants will begin very shortly. Work is already in hand on drafting the additions to the Bill which I have listed as necessary—to provide for the formal designation of the consortium; for the joint broadcasting body, and its length of life; and for the changed arrangement regarding the re-advertisement of ITV franchises. By making these provisions we do not, of course, guarantee that a joint project will come into being. That will be for the potential participants to determine. What we do is simply to play our part, as Government and Parliament, by creating the framework and opportunity. But, of course, having done this, we hope that the participants will consider that it is an opportunity which should now be taken.

The Bill creates an important opportunity to harness the new and exciting developments in technology in both the fields of cable and satellite. In so doing it provides a stimulus to our manufacturing and service industries and facilitates an extension of the range of choice in entertainment and other services to the individual consumer at home. The development of a new communications infrastructure has profound implications for the workings of our society in the years to come. The Bill has an important part to play in making that development possible. As such, it is a measure of far-reaching consequence, which I commend to the House.

5 pm

Mr. Gerald Kaufman (Manchester, Gorton): Nobody would deny that the Bill has far-reaching consequences. It is clear from the Secretary of State's extraordinary speech that the consequences will be more far-reaching than those of us who studied the proceedings in the House of Lords anticipated.

The Bill that the Secretary of State presented, is not the Bill which the Government seek to enact. They will amend it root and branch and make fundamental changes in broadcasting policy, which have not in any way been foreshadowed. There are already reasons for disquiet about the way in which the structure of broadcasting will be changed by the introduction of cable television.

The Secretary of State announced the Government's proposals for direct broadcasting by satellite, and, almost in a throw-away sentence, for a national system of commercial radio. He has, therefore, announced a completely new structure for broadcasting, on which there had been no consultation and no discussion, which will replace the properly structured broadcasting system from which the country has benefited for the past 60 years. At most, we shall have a semi-regulated and possibly an unregulated tower of Babel, in which people will plunge their hand to make profits at the expense of taxpayers and consumers. The disquiet on the Conservative Benches demonstrates that. That policy stands apart from the policy in the Bill which we have been discussing for several months and for which we have been preparing since the Bill was introduced in the House of Lords at the end of last year.

When we debated the White Paper, we made our position perfectly clear—that we were opposed to the Government's policy. The Bill is a direct consequence of the policy in the White Paper. We demonstrated our opposition to the policy when we voted against the White Paper embodying it. Before the Secretary of State's statement today, we thought that the Bill sought to mitigate the damaging effects of the policy, and for that reason we decided not to divide against it.

However, some of the safeguards in the Bill are far from adequate, and we shall seek to strengthen them in Committee. If we had known of the Secretary of State's approach to the Bill, we would have come to the Chamber, prepared not for a debate of a fairly anodyne nature, but to debate a contentious measure. If the Bill returns to the Floor of the House after Committee without the safeguards having been strengthened and with some of the extraordinary material foreshadowed today by the Secretary of State, we shall oppose it with all the rigour at our command.

If the Secretary of State participated in legislation instead of merely reading from his brief and disppearing to deport defenceless Asian women, we might get information from him. We had 59 sittings on Police and Criminal Evidence Bill, yet the Secretaray of State attended for only three of the 147 hours. Therefore, we must deal with him on the rare occasions when he is present.

As evidence of the good will that we felt before the debate and as a token of our good faith, we shall donate to the Home Secretary one amendment free of charge—that is, the need to correct the misprint in clause 39(2), on page 33, line 34. Furthermore, we hope that the definition of "local authority" in clause 35(2) will not be amended because the present definition includes the Greater London council as a local authority. Long may that continue.

We hope that the Government are sure that they have the Bill right. It is grotesque that under schedule 3 the Bill will repeal part IV of the Telecommunications Act 1984, which received the Royal Assent only three weeks ago. That is the quickest repeal of a parliamentary statute that I have ever come across.

The cabling of Britain is a development as inevitable as the construction of the canals, the building of the railways, the spread of the electricity grid and the expansion of the telephone network. From it, great benefit will accrue to the nation in terms of more work opportunities, less drudgery, and an easier and more productive life, with greater scope for leisure.

A short time ago, the Government seemed to be fully committed to cabling. There was a grand ceremonial launching under the auspices of the Prime Minister. I am sorry that the Minister for Information Technology—if such a department exists—is not present, because his heart was set on cabling. The trouble is that it has been

[Mr. Gerald Kaufman]

postponed. In the words of Lord Beaverbrook, it will not take place this year or next year either. Unfortunately, the Government's ideology is frustrating their aspirations.

Paragraph 177 of the White Paper sets out how cabling could be accomplished. It states:

"BT (or BT and Mercury)"—

the Opposition reject "Mercury"—

"should be permitted to install wideband cable systems and that they should be required to operate them on a common carrier basis, that is by providing channel space to anyone who sought and could pay for it. If BT were given an exclusive role as common carrier it could ensure that cable systems were developed as an integral part of the national telecommunications infrastructure and that profits earned in densely populated areas would help finance the provision of services in less populated regions".

That is a sensible approach. However, six paragraphs later, in paragraph 183, that course of action is rejected. The White Paper, without providing a convincing reason for it, continues:

"the Government has decided that BT and Mercury should not be given the exclusive right to run cable systems".

Accordingly, motivated only by dogma, the Government have decided that, instead of a national cable network provided by a publicly owned British Telecom, the system —if what arises from the Bill can be described as such — should be constructed piecemeal by private enterprise.

That arbitrary decision leads Ministers to state a tremulous hope as a confident conclusion. The White Paper states:

"The private sector should be able to finance it"—

the cable network—

"without any special difficulty from its normal sources."

But the problem is that demand-led investment depends upon the existence of demand. At present there is no ascertained demand for home banking, home shopping or the other wonders consequent on a national cabling system, although it is hoped that the provision of a system will foster that demand. Since there is clearly a massive appetite for electronic visual entertainment in Britain, the Government pin their hopes on the assumption that entrepreneurs, anticipating large profits from cable television, will provide for the Government the cable network that the Government are unwilling to commission from the public sector—a public sector which, in any case, the Government are about to hand over to the scavengers of the City of London.

The Government hope that utility will ride pickaback on entertainment, and the White Paper is refreshingly frank about what they hope will happen. It states:

"Wideband cable systems offer the opportunity for non-entertainment services to be made available to subscribers at marginal price levels, since the basic system and infrastructure costs will have been absorbed by the entertainment services."

To put it even more crudely, again in the words of the White Paper, it is

"the Government's wish to see new types of service develop on the back of programme services."

That means that what was once trumpeted as the cabling revolution will be, at best, a series of sporadic local risings. There is something almost wistful about the White Paper's meek expectation, when it states:

"The cabling of Britain will almost certainly take place gradually in the years ahead."

I like the phrase, "almost certainly". A leading article in the *Financial Times* stated the position somewhat more brutally and certainly much more honestly:

"There is a view in the telecommunications industry that the dream of an efficiently integrated communications system is looking increasingly unreal. This is because such a goal may be incompatible with the Government's strategy that cable investment should be privately financed and market led."

The Home Secretary said today that DBS was a high-risk, high-cost venture. If DBS is such a high-risk, high-cost venture, I cannot even think of adjectives to describe the cabling policy which the Bill will make possible. The fact is that the poor old Minister's dream of the harvesting of information technology looks more and more like the exploitation of entertainment technology, with the availability of next year's electronic marvels dependent on the appetite for last year's Hollywood movies.

The leading article in the *Financial Times* summed up the position well:

"The idea, at least for the short-term, is that viewers of popular television programmes will fund the investment that will lead to a new world of two-way interactive communication."

Our hopes of a growing national cable system depend on the estimates of profitability made by potential holders of cable television franchises. It is certain that cable can be profitable only in densely populated areas, which means that under the Government's arrangements not much more than half the country—perhaps 50 to 60 per cent.—can expect to be cabled, however many other areas might wish to be cabled. More likely is the prospect that only about half at most of those 50 to 60 per cent. of households will pay hard cash to be linked to cable television. That makes the economics of the endeavour highly problematical, although the confusion about investment allowances for constructors has, I hope, now been cleared up.

A research organisation has considered 10 areas chosen by the Government for new cable television systems, and has found that with a subscription of £9 a month for a basic service, a cable company can expect to sell its services to one home in three. The inclusion of other services would increase the average subscription to £16·50, giving an annual revenue of about £7·25 million. At best, that would put viability on the borderline, with profits having to be earned from advertising and other services. Naturally, the same market forces which dictate the Government's policies mean that the bigger the subscription, the fewer who will subscribe.

Ironically, the one big assured profit-maker is the single area of activity from which the Government have firmly excluded the cable operators — voice telephony. The White Paper said flatly that voice communication would remain the exclusive privilege of BT and Mercury. I hope that when the Minister of State replies he will reiterate that commitment with the utmost clarity, since other commitments seem to become blurred as they are transferred from White Papers to Bills.

How will cable operators be lured into doing the Government's cabling for them? That restrictions must be imposed on those operators is recognised by all, but safeguards that are too strict will rule out for good the prospects of profit for the operators. They will face the dangers of bankruptcy that have already afflicted some of their powerful counterparts in the United States — counterparts with access to far greater resources than many of the people who will try to become cable operators in Britain. The need to maximise the prospect of profits means that the safeguards must be watered down. Brittan's law becomes Gresham's law. The danger is, literally, that the bad will drive out the good, because the fear is that without much firmer safeguards than those contained in

the Bill, cable operators avid for profit will buy in dumped American programmes—material that has paid for itself in its home market and can accordingly be provided cheaply for our viewers.

The White Paper spelt out the economics clearly:

"For ITV the average cost per hour of transmission (excluding advertising) in 1981 was just under £40,000 averaging out original productions, repeat and bought-in material. In 1981-82 the BBC's operating expenditure for its two television channels was about £30,000 an hour. Channel Four is operating on a tighter budget and is spending around £25,000 an hour. An hour of original material can range from around £20,000 for a current affairs programme to £200,000 for drama (or even more in the case of prestige projects). Bought in material from the USA"—

remember that this is the Government's White Paper—

"where the productions costs have already been largely if not wholly recovered on the domestic market, can be obtained by the broadcasters for as little as £2,000 an hour."

The White Paper promised a remedy:

"The Cable Authority in considering competing applications will be under a specific duty to give weight to plans for using British/EC material and for stimulating new domestic production. It will moreover be required to satisfy itself that a proper proportion of such material is shown on each channel."

At present the existing suppliers of television programmes—the BBC and the commercial ITV organisations—are restricted to transmitting 14 per cent. material of foreign origin.

When the White Paper was published in April last year Lord Whitelaw told the House of Commons:

"On foreign programme material . . . the cable authority will be required to see that a 'proper proportion'"—

of British programme material—

"is shown on each channel as appropriate, to work towards a progressive increase in that proportion as United Kingdom production capacity grows, and to report progress regularly to the Government. We are anxious to maintain and develop the strong national production capacity that the BBC and ITV have helped to create."

He said even more specifically:

"The cable authority . . . will have to show that there will be a progressive reduction in the amount of foreign material that is used. That duty is not placed on the IBA but it would be placed on the cable authority."—[*Official Report*, 27 April 1983; Vol. 41, c. 867-70.]

The present Home Secretary, on this as on so many other matters, is much less satisfactory than Lord Whitelaw. He said casually last July:

"the Government accepts that in the earlier years cable operators may need to use a significant amount of overseas material, if cable is to get going".

However, the Bill does not say that. It simply asks the new cable authority to do all that it can to secure

"that there are included in the programmes proper proportions of recorded and other matter which originates within the European Economic Community and is performed by nationals of member States."

Clause 7(2)*(b)* requires the authority to take into account

"the extent to which the applicant or each applicant proposes to include in the programmes matter which originates within the European Economic Community and is performed by nationals of member States".

There is nothing there about working towards a progressive increase in the United Kingdom proportion, or about a duty to show such a progressive increase, or about a duty to report on progress in achieving the increase to the Government. That is not in the Bill. The Bill seeks to enact the unsatisfactory vagueness of the present Home Secretary rather than the reassuring commitment of his predecessor.

Mr. Roger Gale (Thanet, North): A few moments ago the right hon. Gentleman gave the House the impression that a restriction of 14 per cent. was imposed on the IBA and BBC. Will he concede that that is incorrect and that that is a self-imposed restriction, couched in the same terms as those in the Bill?

Mr. Kaufman: No, I do not accept that. Even if the hon. Gentleman were accurate, it would not matter. However the limit is imposed, we want the same limit for the cable operators—that is the principle. Therefore, we are saying that, however the limit is assumed, whether it is a voluntary or compulsory one, it is intolerable that the same limit accepted by the BBC and the IBA should not be imposed on cable operators.

The Minister of State, Home Office (Mr. Douglas Hurd): I assure the right hon. Gentleman that the passage in the Bill that he is criticising is taken directly from section 4(1)*(c)* of the Broadcasting Act, which imposes a similar duty on the IBA.

Mr. Kaufman: However, the commitment made by Lord Whitelaw was not the commitment made for the IBA. His commitment——

Mr. Gale: The right hon. Gentleman should admit that he was wrong.

Mr. Kaufman: I am not wrong. The statement made by Lord Whitelaw was a promise that the proportion employed by the cable operators would be reduced——

Sir Paul Bryan (Boothferry): From what?

Mr. Kaufman: From the original proportion. I am happy to read Lord Whitelaw's words again. I am sure that he would be glad to hear his pledges reiterated in the House, even if the Government have rescinded. He said in April a year ago:

"The cable authority will be required to see that a 'proper proportion'"——

of British programme material——

"is shown on each channel as appropriate, to work towards a progresssive increase in that proportion as United Kingdom production capacity grows, and to report progress regularly to the Government."

He said later that the Cable Authority

"will have to show that there will be a progressive reduction in the amount of foreign material that is used. That duty is not placed on the IBA but it would be placed on the cable authority."—[*Official Report*, 27 April 1983; Volume 41, c. 867-874.]

He spoke of a duty, but there is no duty in this Bill.

Mr. Hurd: There is a duty to report, in clause 22.

Mr. Kaufman: There is a duty to report, but not a duty to report on reduction. There was a commitment by the Home Secretary of the day that there should be a progressive reduction and that the Cable Authority should have a duty to report progress on that reduction to the Government. The Bill does not include that. As the Minister says, it has a provision for a report on the requirements of clause 10(1). That clause does not impose the duty to reduce that the previous Home Secretary promised. I am glad that we now have it clear that Lord Whitelaw as Home Secretary gave a promise to the House of Commons and the present Home Secretary has not included it in the Bill.

As the Minister has given me the opportunity, I shall quote clause 10(1)*(d)*, which provides

"that there are included in the programmes proper proportions of recorded and other matter which originate within the European Economic Community and are performed by nationals of member States."

Clause 7(2)*(b)* requires the authority to take into account

[Mr. Kaufman]

"the extent to which the applicant or each applicant proposes to include in the programmes matter which originates within the European Economic Community and is performed by nationals of member States".

We have none of the control promised by Lord Whitelaw, but simply a pious hope. It is a hope that is likely to be extinguished in the rush to ensure profitability by cable operators who may become increasingly desperate to recoup their investment.

We shall seek to amend the Bill to secure a much more precise quota requirement, and we shall seek to amend schedule 1 to ensure that at least one representative of British entertainment or artistic interests must be appointed to the authority. We shall also seek to foster employment prospects in cable for United Kingdom workers and to protect their working conditions. This is especially important in the light of the disreputable clause 42, which repeals the provisions of the fair wages clauses for workers in the cable industry.

We believe as well, particularly in the light of what the Home Secretary has said about relieving the IBA of its responsibility for advertising, that it is about time that this authority—and the IBA—should be required to publish the reasons for its award of franchises to the chosen operators. The cable network should not become yet another old boy network.

We also want a stricter definition of the standards required of news broadcasts. Clause 10(1)*(c)* requires

"that all news given (in whatever form) in programmes which originate in the United Kingdom is presented with due accuracy and impartiality".

The words

"originate in the United Kingdom"

are not precise enough. They leave a loophole which could be exploited.

If operators are unable to get rich quickly, they will seek at any rate to get poor slowly. Not only will they want material for which they pay as little as possible—I hope that this will impel them to draw on local groups which can provide programme material as cheaply as Hollywood and with much more relevance to our circumstances—they will also want to scoop as much advertising revenue as possible. At present, commercial television stations can transmit an average of six minutes of advertising per hour, with a maximum of seven minutes in any one hour. The White Paper, satisfactorily enough, gave this commitment:

"It would be inequitable if these channels"—

the cable channels—

"were free to take an unlimited amount of advertising while IBA channels continued to be subject to restrictions. Accordingly the Government proposes that the Cable Authority should have a duty to ensure that on those cable television or sound channels which it considers to be broadly comparable with IBA television and sound services the amount of advertising should not exceed the maxima (both overall and in any one hour) for the time being set by the IBA for independent broadcasting."

That is a pretty precise commitment. How is it to be honoured in the Bill? It is dealt with in clause 12(3) which says:

"The Authority shall do all that they can to secure that, subject to such exceptions as may be agreed between the Authority and the IBA or, in default of agreement, determined by the Secretary of State, the amount of time which, in the case of any licensed service, is given to advertisements in any hour or other period in any particular circumstances does not exceed the maximum amount of time which could be so given if that service were ITV."

That contains two massive loopholes. First, the authority is enjoined only to do all it can. Secondly, the Secretary of State can interfere to dilute the commitment. What the Secretary of State told the House today when I questioned him about this matter must add to the disquiet that already exists about the proportion of advertisements that will be permitted in cable transmissions. It is all the more important to amend the clause in order to assist the Government to ensure that their original promise is kept.

Audiences for television programmes are, by definition, finite, particularly in a country such as ours, where television set ownership penetrates almost to the whole of the population. When cable is operating, audiences will have four other possibilities of television entertainment. There will be the terrestrially transmitted BBC and ITV programmes. There will be the DBS satellite programmes, provided by the new consortium about which we have just been told. The country will come to regret the way in which the Government are opening wide the doors to increasing commercialisation of television in Britain. There will be the entertainment provided by video tape recorders, which will soon be present in half the nation's homes — a higher penetration than anywhere else in the world. The market into which the cable operators will seek to insert themselves is highly competitive, not to say cut-throat.

The quantity of advertising, while not finite, is certainly not infinitely flexible. The Secretary of State's extraordinary announcement today about a national system of commercial radio will put that source of revenue under even greater pressure in future. It is likely that more advertising on cable, even if the current ITV quota is enforced on cable operators, will reduce the amount of advertising for ITV itself. It is certain that if cable is allowed to include a higher proportion of advertising than ITV—as the Secretary of State seemed to imply today—the commercial television companies will press for their quota to be increased. It will have highly undesirable consequences for the quality of ITV programmes.

Of course, the quantity of ITV advertising depends on audience ratings. Even though British viewers watch television for more hours in the day than any viewers except those in the United States, if cable takes a sizeable proportion of the total audience, ITV will be tempted to go down market in order to protect its ratings. We saw in the early and not very edifying days of ITV that the response of the BBC was to follow its commercial competitors down market as well.

If cable, in its attempt to gain an appreciable share of television audiences, goes for the most accessible and undemanding dumped American entertainment—the Bill gives it the scope to do that—ITV, and then the BBC, will feel impelled to follow down that road. The domino theory will dominate the home screen. It is a proud fact —a fact that everyone in the Chamber cherishes—that British television programmes are of higher quality than those anywhere in the world. One reason for that is the concept of structured programming. The concept of structured programming broadcast terrestrially is already in jeopardy and may not long survive. Indeed, breakfast television on both channels has already brought in sequence rather than structured broadcasting to British television, as commercial radio did when it started.

Labour Members—I trust all hon. Members—believe that the concept of public service broadcasting in Britain must survive and flourish. If cable, in a single-minded

drive for profit, drives its public service competitors down market, we shall all be the losers. I for one shudder at the prospect that the enviable standards of British television should be driven by the pressures of unbridled commercialism down to the abysmal level of most American television.

Labour Members certainly welcome the prospect of greater choice for viewers. We welcome the prospect of more entertainment opportunities. We want to see more local news, more services for the ethnic minorities, and more community television. We wish cable well, and despite the limitations imposed by the Government's dogmatic approach, we hope that the cabling of Britain will succeed. But as that process proceeds, we do not want to sacrifice what we already possess and what we rightly value. It is in that spirit that we approach the Bill.

5.36 pm

Sir Paul Bryan (Boothferry): I declare my interest in the Granada group of companies whose activities are affected by the Bill.

Today's debate is taking a different form from the Second Reading debate only five months ago in another place. That debate was dominated by cable and its problems. Today DBS has taken the stage. Twelve months ago we were all cable optimists. Now, few of us would go as far as that.

The speed of change which has clearly been suggested by my right hon. and learned Friend the Secretary of State today is not what we are used to in broadcasting. The BBC came on the air in 1936. ITV did not arrive until 18 years later, in 1954. Nine years after that we had BBC2 and 14 years later the fourth channel. Each of those was regarded as revolutionary at the time, especially the advent of ITV, and we had plenty of time to digest them. Despite the prophets of doom, especially on the advent of ITV, our television is, if not fully appreciated in Britain, certainly coveted by most of the English-speaking world.

That leisurely development is at an end. The award of the first 11 cable television franchises, followed by the Bill with its cable and DBS implications, sets in train nothing less than a total, if long-term, recasting of the traditional pattern of British broadcasting. We now foresee with complete certainty the breaking down of the BBC-IBA duopoly that has governed our broadcasting for the past 30 years; a further dilution of the public service element; the concept of public service broadcasting; and the end of the advertising monopoly of the ITV companies which has supported their heavy overheads and financed such costly productions as "Brideshead Revisited" and "The Jewel in the Crown". The diversification and internationalisation of ownership, and of the means of distribution and sources of programme. All these developments are inevitable, but the time scale is anybody's guess. It would seem that, in the end, cable will become the natural medium of local distribution in areas which financially justify multiple services, and DBS will offer basic television channels from home and from abroad to all other areas.

Against that background, I am sure that the Government were right to go boldly for cabling of this country at the ealiest possible moment, and for the establishment of DBS. To try to achieve this on the back of entertainment programmes was a challenge to private enterprise in which the Government believe. But this is a free country, and nobody has a duty to enter this tricky and competitive field, or is likely to do so, unless the prospects are good.

To start with, the prospects looked good. My hon. Friend the Minister for Information Technology has been a magnificent champion for the cause, and had no difficulty in selling the idea to many prospective operators; but the truth is that cable looks unlikely now to fulfil the promise that it offered two years ago. The argument then was that Britain's technological future depended on moving into the new world of interactive communications with all the advanced equipment that could be sold abroad, and the creation of employment at home.

A combination of factors has caused a general rethink. The cost of the equipment, far more sophisticated than is required for entertainment, has shocked some people. This has been compounded by the Budget provisions for the abolition of the 100 per cent. depreciation allowance. The suspicion is also dawning that the programme services now on offer to cable television operators may be insufficient to attract sufficient consumer interest in our circumstances. The movie channel has done very well on American cable, but in this country there are already 32 films a week available free on BBC and ITV, and we know that the video cassette recorders are now installed in nearly one third of all our homes account for rental of 4 million cassettes a week, a large proportion of them movies. The cable sports service may prosper, but BBC and ITV do a pretty good job in their coverage of most established sports.

In my view, cable needs a stimulant. My general advice to the Government is as follows. First, do not be afraid that people will make too much money. In the unlikely event that they do, all the Government have to do is to slap on a levy, as happened in independent television. Second, keep restrictions to a minimum. I asked the chairman of the American FCC what regulations he would introduce if, he, like us, was starting a new cable set-up. He said, "I would impose no regulations to start with, and then introduce them as they were required."

In the early days, when little money is coming in, there will be insufficient money for programme making, and the programme contractors will have to buy foreign programmes to stay in business. This is not because they want to buy American "rubbish", as it is said, or the other emotive words that have been used, but because, if one puts on half a dozen more channels, many more programmes must be available quickly. Therefore, the programme contractors will have to buy programmes, and they will buy a great many. As time goes on and they get established, I would expect Lord Whitelaw's recommendation to come about, the number of such programmes will be reduced, and there will be an ever-increasing proportion of programmes produced on the home front.

Mr. Bermingham: Would the hon. Gentleman explain — and one appreciates the aspect of the problem to which he addresses himself — just what market the independent producers, who service a large export market at present, are meant to service in the period when these local cable programmes are destroying their very base by the importation of cheap American trash?

Sir Paul Bryan: Since the advent of Channel 4 the independent home producers have already done particularly well. Few people forecast how well they would do. From now on, with cable, there will be many more opportunities, and a considerable growth on that front.

Mr. Gerrard Neale (Cornwall, North): Will my hon. Friend confirm that when home-based programmes by existing channels—BBC or ITV—are sold abroad they too are sold very cheaply by comparison?

Sir Paul Bryan: That is quite true. As soon as programme makers, whether they are American or British, have recouped the original costs, they are able naturally, and rightly, to sell them more cheaply.

The critical times in these early days of cable will be next autumn when the Cable Authority has been established, and when potential aspirants decide whether they will apply for franchises. If there is a long queue of applicants, all is well. If there is no queue, that is the end of the programme companies. They cannot go on producing programmes at a loss with no prospect of an expanding market. By then, the 11 companies which have been granted franchises will be in business, apart from those that do not reach the starting post. Their experience will not yet have provided any indication of cable prospects. It is important for the Government to do everything they can between now and then to promote a more buoyant mood in the cable industry.

As the DBS, I consider that the Government have been sensible and brave. Once the BBC had established that DBS was beyond its means, the only other possible source of money and expertise was the ITV companies, and the other support that the Home Secretary described. The companies clearly could not enter this field, if, during the period of the first satellite they all had to go through the traumas that accompany the reallocation of franchises. Hence the concession that they are receiving in the possible extension of their franchise periods. I think that that was inevitable and right.

I said that the Government were brave because they laid themselves open to the sort of charge that we have heard from the Opposition with the obvious criticism that broadcasting will remain with the same old gang, and so on. However, the hand was so overplayed by the right hon. Member for Manchester, Gorton (Mr. Kaufman) that I do not think that much bravery was required to counter the argument.

In fact, it will not be quite like that. One of the certainties that I predicted in the first sentence of my speech was the internationalisation of broadcasting, with satellites broadcasting into our homes from the continent, in particular from Ireland. The idea that our broadcasters will continue to have the country to themselves is quite false. It also puts into another perspective the restricting foreign films, but they will come in over our borders in any case. The huge cost of DBS would have kept the television companies out of this medium; the new arrangement means that probably all of them will be involved, to their own benefit, and to that of the viewers.

As I have shown, making projections of forecasts in the broadcasting world is not a rewarding exercise. Nowhere can this be more unpromising than with DBS in which there is no experience to go on. All I ask is that the Government learn from their early cable experience, economise as must as possible on the sophisticated technology, and allot a maximum sum for programmes. There is no bottomless pit of interesting material from America to be imported. New programmes will have to be made by the BBC, ITV or other companies. They will have to be complementary to those available free on the BBC and ITV, and in cassette form from the local garage.

The proposal suggests in quality and sophistication a Concorde-like standard. What is really needed is a first step to our celestial broadcasting, something on which we can all afford to ride. Once DBS is on the air, given good programmes, the task of attracting viewers will be less forbidding than it is for cable. We are told that to break even a cable operator must attract 40 per cent. of the homes passed by his cable. On the other hand, DBS needs to be used by 1·5 million to 2 million houses to break even. That represents only 8 to 9 per cent. of homes in the country—the area covered by the satellite.

I did not realise that a statement was to be made about the future of independent radio. We are to have a national independent radio frequency. Will that frequency be given to one operator covering the whole country, or will the franchise be regionalised? Will there be straight competition in the advertising world between local radio stations and a single national body? That is of interest to the whole radio world.

Earlier I contrasted the differences surrounding today's debate with what happened a few months ago when the Bill was introduced in another place. I wish the Government every good fortune in this exciting and changing scene.

5.52 pm

Mr. Clement Freud (Cambridgeshire, North-East: The Bill is another monument to the Government's policy of free enterprise and the efficiency of competition; but in this instance the myth that competition will decide and allocate, let alone do that efficiently and well, should be speedily debunked. In short, the Government appear to be actively intent on allowing monopolies to develop whilst publicly hoping that, miraculously, they will not.

There is already a high level of concentration in the industry. Even the initial measures taken by the Government to introduce cable operations—in the 11 private franchises granted—has illustrated the concentration potential, since three of the 11 franchises have been given to one group—Thorn-EMI. If steps are not taken to prevent the acquisition or buying up of neighbouring franchises, area and regional monopolies are likely to develop without any positive good to the consumer. I am aware that there may not be any positive good to the programmer either financially or otherwise.

One must question the wisdom of seeking to exclude cable companies from the scrutiny of the Director General of Fair Trading and ask whether there is any justification for that. I have no doubt that we shall discuss that at length in Committee.

What will emerge in the wake of the Bill is the creation of another quango in the shape of the Cable Authority, the membership of which is to be in the gift of the Home Secretary. It will be another unelected body which may even be unrepresentative of those most intimately involved in the industry, let alone of the public at large. Nonetheless, it will enjoy considerable discretionary powers, with few obligatory duties.

The Bill fails to guarantee representation of local interests, of the voluntary organisations which are being

urged to look favourably on cable television, or of any part of the broadcasting and entertainments industry. A membership of 10 for such an ell-embracing authority seemed to be sensible. The Home Secretary mentioned the chairman and six members. I shall not argue about numbers; I would rather there be seven good men and women than 10 chosen because they happen to be closely related to, or friendy with, a particular Member on the Government Front Bench. We believe that calibre is more important than numbers, although, unlike the Government Front Bench, we do not believe—as does the president of the Fiat corporation of Italy—that the number of directors of a company should be uneven and that three is too many.

We know that the Government are not in favour of open government let alone the encouragement of public scrutiny of quasi-official goings on, but consultation procedure for franchise applications, and later appraisals of how each franchise is operating, must be there for all to see. I suggest, as does the National Consumer Council, that there should be an obligation on the cable companies to be open to public scrutiny so that the public can be reassured that the operator is among the best of the applicants.

We have talked much about quotas. The Home Secretary said that a proper proportion of foreign films was 14 per cent. Surely it would be better to lay down what is an improper proportion and to set a ceiling on the percentage of material that can come from foreign countries. Those of us who have been in the House for a long time and have taken part in similar debates know that if we are to have rubbish it is better for it to be our rubbish. If it cannot be British rubbish, let it be EEC rubbish. We all know that the older the material, the cheaper it is. Our old rubbish is better than their old rubbish.

An important issue is programme standards. I am bemused that the Home Secretary should believe that programme contents beamed from on high or channelled from beneath the ground should be subject to different criteria from material transmitted by existing methods. Most hon. Members will agree that, under the monopoly of 60 years ago and the duopoly which has existed for 30 years, the monitoring of standards has gone quite well. Suddenly, because people are not keen to come forward and provide a service, the Government are to offer inducements, either financially or by extending a franchise. That must not be allowed to change standards.

Cable television programme standards should be protected on the same basis as those already laid down for the broadcasting authorities. There is no reason why violence, obscenity, filth, or even rubbish, delivered by cable should be more or less acceptable than material brought to us in the traditional way.

Control also needs to be tightened in advertising. I urge that the rules currently operated by the IBA in one section of the broadcasting media be similarly applied to cable broadcasts. The control of sponsored programmes on cablevision should be no less stringent than on broadcast television.

If the greatest public good is to be extracted from the opportunities that cablevision offers, we must look more carefully at the question of responsible monitoring and access by local groups. Most voluntary organisations have emphasised the need for resources and relevant expertise to be apportioned to them if they are truly to benefit from cable broadcasting.

I remind the Home Secretary that the nation awaits with eagerness the advance determination of what shall and what shall not be "protected events" of national significance. I am not suggesting that a new quango be set up to gauge the ongoing events that shall be protected or unprotected. But I feel that with the Bill there must be a schedule that includes a broad range of events that the public, whether or not they pay for cable television, whether or not they are able to view cable television, will be guaranteed on the existing channels. That must include not only the existing classic races and international football matches, but a fair proportion of minority sports that have their adherents who deserve to look forward to rugby football, rugby league, ice dancing and the many other events that are now shown on television and which are dear to their hearts.

6.1 pm

Mr. Tim Brinton (Gravesham): As a cautionary measure, I declare my interests, although as far as I know none of them has any direct connection with cable or satellite. I am a director of Airtime Publicity Limited, a consultant with the British Videogram Association and a firm called Communications Strategy.

I wish to introduce a slightly novel note into the debate. With one exception, all the speeches have appeared to suggest tha we are considering an extension of public service broadcasting in the development of cable. That is the wrong way to approach the subject because we arrive so often at the wrong arguments. Some have defined cable as narrowcasting—it is the deal between the man who provides the cable and the individual customer, multiplied many times, just as a library deals in books. It is not transmitted out into the ether and spread over everyone who has the capacity to receive it; it is done individually. It is a novel form of service and a whole new ball game in inventing a new technology device to provide communication and picture in the home, office or wherever. Therefore, immediately to relate the problems of providing cable—only one part of which concerns public service broadcasting or entertainment—with what goes on now tends to produce a difficult argument.

Another difficulty has become especially apparent today, although many hon. Members have noticed it during the past two years. If there was one Department in Government responsible for the whole of the arts and the media and the problems connected with them, we would have a simpler time. Half of the Bill to regulate cable and DBS depends on the activities of the Department of Trade and Industry, yet it is introduced by the Home Secretary. So much depends on what the other Department is doing as the operation proceeds. For instance, as I understand the Bill, the new Cable Authority will not stand a chance of getting its fancied runner appointed to a contract if that fancied runner has not already been given the go-ahead, through licences, by the Department of Trade and Industry, which therefore has the whip hand. Of course, negotiations will take place, but it is vital for the licence to be granted before or during approval by the new cable authority in terms of standards and so on.

The White Paper suggested that we follow the light touch suggested by Lord Hunt's committee. The Bill strives genuinely to preserve that light touch but, here and there, that light touch has been tightened quite significantly. That worries me. Innovations in the entertainment business have had to start in freedom and,

[Mr. Tim Brinton]

as the hon. Member for Cambridgeshire, North-East (Mr. Freud) said, with a certain amount of rubbish. It is from a great deal of rubbish that they developed into what we know today.

There was a great deal of rubbish in the theatre, in film and in cinema when they began. Certainly on the question of standards, about which much has already been said, and much more will be said today, there was a great deal of low standard television before the advent of commercial competition through ITV. I accept that some first-class plays were broadcast by the BBC when it was a monopoly. However, I worked there and I know that there was also plenty of bad quality television, as there always will be. I freely admit that I appeared on some of it, but that is of the very nature of the game. The assumption by hon. Members that the potential audience, if it materialises—and it is a big "if" for cable—will be grabbed and hooked for years and years if it is offered nothing but cheap American rubbish is wrong.

I began by saying that I envisage cable as a new technological facility. If a householder is to pay £9 basic a month and a little extra for this, that or the other channel, and he is offered only American rubbish, after a few months he will become supremely bored with paying extra for something that he could get a great deal of on both the major channels.

The quota for ITV and BBC, which is self-divined at 14 per cent., looks different if we study the prime broadcasting times of 6 pm and 10 pm. If from the *Radio Times* and *TV Times* we worked out the proportion of foreign and non-EEC material during those times, we would see a different picture. That is what people are really talking about when they refer to that magic figure quota. A great deal is already broadcast and received in that popular way.

Last night I was riveted by BBC 1, as I suspect was any hon. Member who was at home—[HON. MEMBERS: "No."] Well, some watched snooker, but I watched BBC 1. A four-hour schedule featured five winning programmes. I am sure that the broadcast was intentionally timed, by the new managing director, who is an excellent operator, to go out before our debate. It was interesting to note that three of the four hours featured essentially down-market, popular material, linked by a professional presenter, and the whole demeanour——

Mr. Roger Stott (Wigan): Why are they down-market?

Mr. Brinton: I am glad that, for once, I can respond to an Opposition intervention made from a sedentary position. I consider them down-market because they are essentially popular programmes. I am not criticising them, but praising them——

Mr. Corbett: Snob.

Mr. Brinton: I am not a snob. I am trying very hard—and I am glad to receive support from the Opposition Benches——

Mr. Corbett: Is the hon. Gentleman saying that simply because millions of people are riveted to their television sets watching the Olympic Games that there is something down-market about that? Why does he make such snobbish judgments?

Mr. Brinton: By "down market" I meant popular, and by "popular" I mean good popular programming of excellent quality. I was not running them down. The popular programme need not be of bad quality.

Mr. Kaufman: Perhaps I might give the hon. Gentleman a pocket definition. The *Daily Mirror* is popular, *The Sun* is down-market.

Mr. Brinton: As one who takes equal glances at both, I would not dream of giving a judgment on the right hon. Gentleman's view.

Having, I hope, established that by good quality we do not mean something that is of only minority interest, but which can also be popular, I am making headway with my argument, for there is a great deal of useful, high quality, popular programming which has not yet been explored in Britain.

It has been suggested that there should, as of right, be on the new board of the authority a representative from one of the entertainment unions. I see cable development fundamentally as being business-led. I hope that when the Home Secretary considers the people who will represent our views on the authority, he will put business expertise first and foremost. A mistake that we have made in broadcasting for too long has been to talk about it as though it were some sort of religious proceeding. It is not. It is real, and it is becoming more real and sophisticated. Cable will not succeed if too many members of the authority are concerned with the more philanthropic side of life. The authority must be tough and know exactly what it is saying to the various consortia that will be spending huge sums.

The statement in clause 10 that

"all news . . . is presented with due accuracy and impartiality"

is right in terms of hard news. However, I have noticed in previous debates, notably in connection with video recordings, that sometimes we used the word "news" too loosely. For example, if that provision were to include current affairs, I should be worried about the toughness of the impartiality rule because cable, with its multi channels, presents an opportunity for all shades of opinion to be heard and seen.

For example, there is the possibility of trade union organisations getting together to put over their point of view. The possibilities for business and other interests are huge. We have come away, as we go through this window, from the four channels, the duopoly. We are going in for the sort of multi newspaper set-up that we have in Fleet street, and newspapers can allow opinions in editorialising.

I believe that there are plans by cable operators to provide, in effect, closed information channels. Again, the trade unions or other interest groups might wish to speak to only their members. If they are putting one point of view, must we ask somebody along the following week to balance that point of view, as we do now with the BBC and ITA? To do so would be wrong.

I have dealt with the quota question. As I say, the British people will themselves ensure that British material in enough quantity is put on, otherwise cable will fail.

The position of advertisements is, some would say, too tied to the IBA. I have no objection to the broad idea that where programme material is similar to that being put out by IBA constractors, the amount of advertising should broadly be the same. However, I notice in the Bill that the letters "IBA" occur with increasing frequency. Indeed,

there is an instruction to the authority to consult the IBA —no other body is mentioned in relation to consultation —before determining advertising policy.

The authority should certainly consult the IBA, but it should consult the advertising and other associations and bodies involved. I should like to see the specific instruction to consult the IBA made more general. While no authority concerned with television advertising could fail to consult the IBA, I fear that at present it looks as though the IBA's word will go forward.

Direct broadcast by satellite is as risky, if not more so, as the cable venture. We are talking about a very high risk investment. I suppose that when my right hon. and learned Friend was considering the present position on satellite broadcasting—being a believer in the free market and free competition—he had various options open to him when the BBC decided that it had to go in with one or more other bodies to succeed.

For example, he could have said, "No BBC or IBA contractors. Let us open a new free market and compete absolutely fairly." He did not say that. He chose, instead, to give 50 per cent. of the operation to the BBC and the new consortium, about 25 per cent. to the IBA contractors —if they will take it, and that is still a big "if"—and about 25 per cent. to others.

The competition should be fair, and to give the lion's share to the BBC and split the other two in the way proposed is not completely to my liking. If we must split it, I would prefer it to be 33⅓ per cent. to each, and then we should have fairer competition.

As for the concession—I suppose that "concession" is the word we must use—which my right hon. and learned Friend announced today, it had been rumoured that the present franchises might be extended. I gather that he decided not to take that view, but to say that the IBA shall have the freedom to choose not to readvertise the present contracts in 1988-89, when they become due.

I hope, if inducement it be, that it is enough inducement for this huge investment, for I could hear some of the contractors whispering behind me, as it were, "If in 1988-89 the IBA chooses to make me readvertise, I shall have put a great deal of money into satellite and I am in exactly in the same situation as I might have been before. In other words, I might lose my licence almost on the day that my money starts to work for me on satellite." That is a big difficulty that I trust we shall consider in more detail during a constructive Committee stage.

I am a believer in cable and in satellite. They can both work. Our job is to give them the freedom to work, to stand back and not get too involved with successive regulation.

6.20 pm

Mr. Gerald Bermingham (St. Helens, South): The hon. Member for Gravesham (Mr. Brinton) advanced an interesting theory on how the cable system could be financed and got off the ground. The concept is to give the public trash at first to make it easier for the cable stations to get off the ground. Subsequently the great British public will say, "We have had enough trash now, please include some quality programmes." The hon. Gentleman suggests that at that stage the standard will start to improve. That is the argument of the naive. It does not take into account the possibility of independent producers who have built up expertise going bankrupt because no one will buy their product as a consequence of all the cheap trash that is available on the world market. The cheap stuff costs about £2,000 an hour in product time as opposed to the very much higher price of the decent quality programmes.

Sir Geoffrey Johnson Smith (Wealdon): Why does the hon. Gentleman assume that something that can be purchased at a very moderate price should automatically be classified as trash? There are many ancient productions when judged by modern yardsticks which are classics of their kind and are available on very easy terms commercially. Would it not be to the advantage of many people to be able to see those productions?

Mr. Bermingham: I accept that unreservedly. "Gone with the Wind", for example, has circulated through the cinemas and has appeared on the television screen. A video recording of the film is available and the film is available in various forms from all sources. It may well be possible for a cable station to buy a copy of that film at a low price. No one would dream of suggesting that "Gone with the Wind" was trash.

I have much more in mind the secondary product that one sees on American cassettes that have been used to record some of the products that are shown by American cable stations. The quality of production in that sector does not depend on age. It is often quite modern stuff—it might well have been made in the past six to eight months —and, because of the large market in the States and in other countries, it is possible to reduce the product price. That is the result of being able to sell a large number of units. Units will be sold to the American cable stations and to many others and the unit product price in the Britain will be very much less than the unit product price of a similar product in this country. This constitutes a form of unfair competition because the marketing possibilities of the American product will have been exploited to the full and production costs will have been recovered. The quality of many programmes of that type is trash and I make no apologies for saying so.

Mr. Neale: I suggest with the greatest sincerity that the hon. Gentleman considers further his argument in respect of British productions which, I am sure, both he and I would not consider to be trash. Indeed, I am confident that he will agree that the majority of them are of an especially high standard. If the hon. Gentleman wishes to serve on the Committee that considers the Bill, and if he is selected to do so, will he direct his attention to productions such as "Brideshead Revisited" and series such as "Upstairs Downstairs" to ascertain the price that they have been able to command when sold to overseas companies? I can assure him that they sell for a piffling proportion of what they cost per hour to produce. The same argument applies to productions from overseas that are sold to the British market. The hon. Gentleman must accept that there are films that can be acquired cheaply from overseas that are of a high standard and that there are others that are trash.

Mr. Bermingham: I accept the hon. Gentleman's argument. I accept also that English products, once they have been sold within our own system, may well sell abroad for smaller sums. I am advancing the simple argument that, unless we allow a home market to continue and in some form to be safeguarded, the product of our producers, which subsequently becomes an export product, will not get off the ground. If we do not have a home market we shall be unable to build an export market.

[Mr. Bermingham]

The product price externally will be very much higher because of the absence of the home market. It is vital to ensure that quality of production is of a high standard and that basic production is safeguarded, and there lies my quibble with the Bill.

I accept the Bill in principle and I accept, too, the concept of development in the entertainment industry, whether it be by way of satellite 1 or the BBC satellite. We have heard this afternoon that there is to be commercial radio nationally and goodness knows what else. I do not object to diversity, but who will pay for all these developments? What equipment will the average householder need in his house if he is to benefit from all the new systems that will become available? A secondary argument can be developed when we consider how the programmes will be funded.

If the average householder is to benefit from all the developments that we are discussing — I concede immediately that it will be necessary to produce domes to be placed on roofs to receive the signals and that additional fees will have to be paid—the cost at current prices of the initial equipment will be about £450. I suppose that every good household will have to have its video machine, which will cost about another £400. In addition, the average householder will have to pay his television licence and pay to join a video club. I accept that the membership fee for a video club can be as little as £1 a year. All this means that the man in the street will spend more than £1,000 if he is to benefit from the proposed developments. The number who will be in a position to spend all that money must perforce be somewhat limited. Not everyone will be able to spend £1,000 in this way. Many of them will go either for the cable system or for the "dish" system, the satellite alternative.

The audiences for each of these types of programme will fall, and when that happens the advertising rates will also fall.

Mr. Brinton: Does the hon. Gentleman agree that the magnitude of the challenge will be faced by the advertising industry as well as the programme maker and Parliament, which will regulate what should appear? Many enlightened representatives of the advertising industry accept that they will have to change their attitude to media advertising and target it to individual groups in a very different way.

Mr. Bermingham: I am grateful to the hon. Gentleman for intervening because he has taken exactly the road on which I set out to travel. He has referred to an area that causes me to have the greatest reservations when I consider the contents of the Bill. If I am lucky enough to be selected to serve on the Committee that considers the Bill, I shall travel along this road at much greater length. The Minister know from experience what that might mean for him.

I return to the road on which I have taken only a few gentle steps. As I have explained, advertising rates will fall, the advertising base will contract and the funding from the companies that purchase the various "products" will decrease. If royalties are to be maintained, quality must also be maintained. If quality is to be maintained, a standard of product that is similar to the present standard must be maintained. We could not say that we had a particularly high standard if the world did not choose to prove us right. Whenever there is a television award competition — I am no expert on these matters — we seem to win. In this sector we enjoy the almost un-British pastime of winning. By that means we say to the world that we have a product that is worth having and the world actually agrees with us.

Why do we have a product that is worth having? The answer is that the quality of our producers and directors and of others involved in the industry is very high. How do we manage to achieve that level of excellence? We have not attained it by producing cheap, second-rate trash. We have done it by maintaining a home market for our people. As I have said, the way to ensure the continuing quality of our products is to ensure that our home market and our producers are to that extent protected.

I am not suggesting that we protect the incompetent and imbecilic. I am talking about protecting the quality of present standards. I concede that there may be a difficulty with cable services. I agree that we are in a different media game today compared with 30 years ago when independent television was first introduced and almost became a licence to print money. Cable must not be seen in that way.

People must go into the cable industry with their eyes open. Similarly, those who go in for DBS must have their eyes open. The House must not permit those systems to be considered as a means of printing money. Cable services must be a means of offering quality in programmes that we can subsequently export. the only way in which we can do that is by protecting our home base from the word go. The IBA and the BBC have a self-imposed quota system on the amount of imported material they use, and that process must flow into the cable system. I accept that we have a hard road to follow, but the end products will be worth it.

Clause 10 deals with the quality and impartiality of our news systems. Subsection (1) states:

"The Authority shall do all that they can to secure"

various requirements. Subsection (1)*(c)* uses the words

"that all news given (in whatever form) in programmes which originate in the United Kingdom is presented with due accuracy and impartiality".

The cynic in me says that it would be a good job if we started with the present news service. I note that the hon. Member for Gravesham looks horror-struck at the idea. I remember his performance some years ago. I concede that a newsreader is only as good as the piece of paper in front of him, but I am worried about those pieces of paper. We cannot always say that news services are as impartial as we would like. It is all very well when setting out on the road to say that we will have impartiality, but we need a means of enforcing standards of quality and taste and the other requirements in clause 10.

I have read the Bill as carefully as one can at this stage, and I accept that the debate perforce has taken on a different flavour because the Home Secretary mentioned many matters not dealt with in the Bill. I shall deal with the Bill as those who prepaerd it first read it. Clause 10 does not have the necessary teeth. There should be a controlling body, with the teeth necessary to enforce what Parliament wishes. I do not believe that any hon. Member wants bias in the news media.

The hon. Member for Gravesham may believe that I have an argument with him about these matters. He may think that he picked an incorrect example in referring to

editorial control of newspapers. There is much to be desired in the editorial quality and control of English newspapers.

Mr. Brinton: I can best illustrate my statements by saying that Channel 4 has introduced a daily commentary spot. An invited guest is free to editorialise and opinionise as much as he or she wishes. That has been a refreshing approach in broadcasting. I was distressed to hear the hon. Gentleman's suggestion that the writers of the hard formal news take their pens in one direction and not another. The hon. Gentleman would be more profitably employed in looking at the inevitable selection caused by one camera lens photographing a scene. That is the most dangerous part of television news, although it is something that this country does better than any other country.

Mr. Bermingham: I accept that the hon. Gentleman's experience gives him a particular knowledge which I would never have. I ask the House to accept that I am trying to paint roughly with a broad brush a particular problem. We learn of proprietorial interference occasionally in editors' duties so that views are directed to one stream rather than another. I do not wish to make a party political point; I am pointing out a general set of principles.

I do not mind presenters giving their view—that is fair and right in a democracy—but there should also be the right periodically to put the opposite view. There must be checks and balances. The Bill fails because it does not allow those aggrieved or disadvantaged by a presenter or channel to put their views. I cite the example of Channel X17 whose news presenter night after night thunders home his view on the availability of public wash houses. There may well be people in the locality who take the opposite view. There is no avenue for their view to be equally presented unless the Bill provides, once aggravation is shown, that the authority can enforce its adjudication. That is an important point, which I raised in June when the White Paper was first debated. That view has been raised by other hon. Members. The Bill does not fully overcome that difficulty.

Although I shall not oppose the Second Reading, I hope that in Committee the Bill will be tightened up with regard to programme protection, balance of programmes and complaints. At the end of the day, we shall doubtless have a system of programme presentation that not only maintains current quality but enhances the spectrum of programmes available so that programmes are fair and balanced and have a proper content.

6.38 pm

Mr. Roger Gale (Thanet, North): I am sure that Conservative Members congratulate my right hon. and learned Friend the Home Secretary on the Bill, although I am bound to say that the legislation was not heralded as ushering in a new era. It was presented in a more enthusiastic fashion than was shown by the right hon. Member for Manchester, Gorton (Mr. Kaufman), who managed to make the sentence, "We wish cable well", sound like an epitaph.

Eleven franchise holders understand that they have been awarded franchises and are now waiting in the wings before going into action shortly. I hope that Ministers will reassure those franchise holders that the Government are as fully committed now to the future of cable television as they were when the franchises were announced at the end of 1983.

My hon. Friend the Member for Gravesham (Mr. Brinton) said that cable was a different animal from broadcast television. The House should consider that point and understand that we are dealing not with anything broadcast, in the terms of part I, but with a completely new medium—narrow casting. It has the potential to take a series of signals into someone's home and to offer him an interactive service. The word "interactive" is not used in the Bill, despite the fact that the thrust of the original concept was high technology.

A person is being offered the possibility, for example, to watch in his own home a programme about foreign holidays, to see an advertisement for a holiday that takes his fancy, to choose not to do anything about it at that moment, and to watch the rest of the programme. By pushing a response button on a machine held in his hand, that person will be able to store that information and wait until the end of the programme, or the following day, if he so chooses to recall and rerun it. Having seen an advertisement that extolls the joys of holidays in Margate or Herne Bay, in my constituency, and no doubt enjoyed the prospect, the person will be able to call the advertisement through the same system as written information which he can read and re-read it as a newspaper. If that person is still interested, he will be able to call another number and place an order. With the same system, he will be able to pay in advance for that holiday. That, and a great deal more, is the potential of cable.

Cable will have a potential for home education—the facility, once the correct chip is inserted in a television receiver, for a receiver to be fed with a series of educational programmes overnight while the house is asleep. At the push of a button the following day it will be possible to recall all or any of those programmes and to run them as often as one wishes. Cable has a potential for home shopping. It is a facility that could be an enormous asset to the housebound, the disabled and the elderly. There could be the opportunity to call up a catalogue from a local store, to decide what one wanted, order it, and if one chose, to pay for the article and have it delivered. Those are all practical possibilities that could be achieved at present.

It is being suggested that the installation of such a system will take a long time. The installation of interactive fibre-optic cable in every home will clearly take a long time. That is what we are dealing with. That is why I am dismayed that so few hon. Members are present. I believe that we are talking about the most exciting advance in the communications industry for many years, and possibly ever.

Given that we are dealing with a completely new concept, completely new standards should be applied. Therefore, many of the arguments that we have heard this afternoon are outdated and archaic.

I come now to the composition of the Cable Authority. The authority, as the Bill now stands, will be required to lean heavily on the advice of existing authorities—the Independent Broadcasting Authority and, in the fine print, the ITCA for advertising standards. I hope that that will not be the case. I hope that the Cable Authority will be composed of qualified people who can exercise the right professional judgment, to give this new service the opportunity and the freedoms that it needs.

[Mr. Roger Gale]

The right hon. Member for Gorton suggested that there should be a special person appointed to the body to represent the entertainment interests. That sounds as if he has been attending too many debates held by British Actors Equity where the Left wing has sought to introduce a box for almost every category of egg. I hope that that will not happen. I hope that the Cable Authority will be composed of those people who are judged the best qualified to do the job, and that they will be allowed to do it unfettered by advice from the ITCA, the IBA, the BBC, the Home Secretary or anyone else.

I should like to deal with the controls over advertising standards, and remind the House that we are dealing not with cable broadcast television but with a cable service capable of infinitely more than the television in the corner of the room. The programmes that will be carried will include not just the four currently broadcast terrestrial networks and the DBS channels but a great many other specialist items as well. I have mentioned facilities for home education, home banking and home shopping, but there is a great potential for specialist programmes, and also, for example, for a shopping magazine. When independent television was first introduced many years ago, there was a programme called "Jim's Inn". In due course it was decided that the advertising standards of that programme were out of order under the IBA regulations.

Mr. Austin Mitchell (Great Grimsby): Jim was out.

Mr. Gale: As the hon. Gentleman says, Jim was out.

In the context of sequential broadcast television, that was probably a correct decision. We now have the opportunity to have an entire channel devoted to a comparative magazine—a cable "Which". There is no reason why such a programme should not be sponsored and carry an infinitely greater volume of straightforward advertising than the current six minutes to an hour carried by independent television.

Mr. Corbett: Will the hon. Member accept from me that it would be inaccurate to describe such a channel as a cable "Which"? As he is aware, "Which" has nothing to do with any sponsorship or co-operation with any manufacturer or provider of services that it investigates.

Mr. Gale: I accept the hon. Gentleman's point. "Which" is a comparative magazine. I believe that that was the phrase I used.

It would not be improper for such a comparative magazine to be sponsored. I accept that it might be invidious to include advertisements for individual products. I am sure that the hon. Member understands the drift of my remarks.

We are dealing with a different service. I believe that it requires, and must be allowed to have, different parameters within which to work. I hope that in Committee it will be possible to reconsider the clauses restricting permitted advertising.

Under the franchise arrangements, the Bill provides for community access programmes, but it is not clear who will have editorial control. Will the cable operator be able to say yea or nay to the programmes produced by the local community, or will the franchise holder be compelled to take, within a given slot on a given cable, whatever the community produces? As we all know, especially those of us who have produced and directed programmes, some community programming is very good. Some, however, is lacking in technical quality and often, frankly, in artistic merit.

It is right that community access should be provided to cable television, but if we require cable operators to carry that material, they must have some right to reject material that they consider is unsatisfactory. I suggest, therefore, that the final arbiter of what is satisfactory, acceptable and transmittable on cable should not be the cable operator or the community programme provider, but the Cable Authority. That is the only way to give just access, and to ensure that cable operators are given the correct amount of editorial control, to which they have a right.

Much has been said about the quota of British programming within a schedule. I have made many British programmes, and I should like to comment upon that aspect. Opposition Front Bench spokesmen have said that television costs about £20,000 an hour in news terms. A rough yardstick for producers in British television is a total production cost of about £1,000 a minute. Much of British television is sold overseas as cheaply as the £2,000 a minute for which it is bought in. Many independent producers already make programmes for, say, Channel 4 at costs that it cannot afford to pay. Those independent producers make the programmes in the certain knowledge that, by doing a deal with the television company to retain the sales rights, they can give first outlet to the home-based television networks and subsequently to recoup the production costs and make a profit by selling the programme worldwide.

The advent of cable will create a tremendous market for the independent producers, who will make programmes on that basis. Programmes will be shown in this country on many cable stations. The rights for overseas sales will be reserved by the programme maker and subsequently sold overseas. I believe that programme financing will work in that way, at least initially.

There is no question but that most, if not all, cable operators will be unable to commission the sort of programming that was referred to earlier this afternoon. Equally, it is true that much good material is generated overseas. Much of that will be needed. It will be highly desirable, and cable will give an opportunity for highly specialised and specialist programmes to be watched by minority audiences.

The hon. Member for St. Helens, South (Mr. Bermingham) asked who will pay. He would probably accept that there is great potential for private advertising through hundreds of people, if they happen to be right for the advertiser. It is more worthwhile in advertising terms to sell a product to those to whom the companies wish to sell than to sell it grapeshot and hope that some will buy.

Mr. Neale: Would my hon. Friend agree that the consumers will pay their subscriptions to the network that carries the advertisements? If a cable system is unable to attract sufficient paying members to its cause, it will go out of being. The network must consider its audience.

Mr. Gale: It is true—I believe that the hon. Member for St. Helens, South was trying to make this point—that the system may attract too few people to appeal to advertisers, who will be an important source of revenue to cable stations. I stress that, because of the fine targeting possible on cable networks, the necessary number of

advertisers will be attracted. As a consequence of being able to buy specialist programmes the subscription rates for specialised channels will be fairly high.

Mr. Bermingham: Does not the hon. Gentleman agree that, in an area that receives cable television, there will be a maximum audience of, say, half a million, the nature of which will depend upon how many of those living in the area take up the option to use the cable service from the local distributor, if I can so describe it? If advertising firms wish to target, the sample audience to which they direct their advertising will be fairly small. Companies will not know the exact nature of the sample unless the cable company makes that information available to them. That in itself has inherent dangers. Advertisers will also face the problem of not knowing who within the sample will have their sets switched on at the right time.

Mr. Gale: It is technically possible, and may soon happen, that a microchip can be installed in a television set so that a cable or broadcast operator can send out signals to be stored by the set for later retrieval. It would be possible for a cable or broadcast operator to transmit a programme on subscription to each farmer in my constituency, where there are between 50 and 100 farmers. That is an important market for firms selling a specialised product.

There is scope, perhaps on a section-by-section basis, with coverage every 15 or 20 minutes, rather than a long-term programming basis, for that sort of highly specialised work. That is what cable is about. The service is not concerned just with entertainment. It is an interactive service that is capable of doing many things. Incidentally, a chip that can time-expire will become available shortly for installation in television sets. Those who are worried about the collection of TV licence fees will be pleased to know that, should the Home Office refuse to take up that opportunity, it will be possible to de-activate a television set at the end of a year unless the licence fee has been paid. All of those things are technically possible now.

I am totally opposed to the imposition of any sort of fixed quota. The right hon. Member for Gorton said that the IBA and the BBC were restricted to 14 per cent. of bought—in programmes coming from overseas. That is incorrect. He sought to deny it when I raised the matter at the time, so I shall repeat that those quotas are self-imposed. In fact, the legislation that applies to the IBA and the BBC in that respect is broadly the same as that to be applied to cable operators.

It is desirable that cable operators should be given access to as much material as possible, not only in the early days but for ever. British home production will be generated and stimulated in that way. I also believe that a significant amount of overseas material is well worth watching. I should like to see it made available in this country. Given the 35 channels that it could be relayed on, I do not think that there is likely to be too much material available.

Like a bolt from the blue, my right hon. and learned Friend the Home Secretary said, in the middle of his speech, that he intended to see established a national commercial radio network. On behalf of many of those who have fervently supported local radio, and who believe, paradoxically, that many of the products of local radio should be given a network outlet, I should point out that that is very heart-warming news. However, I am surprised and disappointed that an independent local radio network has not been established before, and many of us believe that it cannot come too soon.

I welcome the Bill, and hope to have the opportunity of working on it in Committee. It is a significant piece of legislation, whose effects will be felt in every home in this country.

7 pm

Mr. Robin Corbett (Birmingham, Erdington): I remind the House of my interest as a member of the National Union of Journalists.

I should like to underline the remarks of my right hon. Friend the Member for Manchester, Gorton (Mr. Kaufman) in making the strongest possible protest about the Home Secretary's abuse of the House by making, in his Second Reading speech, wide-ranging announcements about changes to the shape of broadcasting in this country. If he had had any courtesy, he would have recognised that they merited a separate statement from the Dispatch Box, and that they should not simply have been piggy-backed on to this Second Reading debate. However, I shall not pursue that point, Mr. Speaker, and I suspect that you would not allow me to do so anyway.

Mr. Hurd: The hon. Gentleman is being ungenerous. Part II deals with DBS. It would have been very wrong if my hon. and learned Friend had spoken on Second Reading without telling the House that because of the developments that he explained we would find it necessary to add to Part II. My right hon. and learned Friend handled the matter in a perfectly orderly way.

Mr. Corbett: I understand what the Minister says, and it is typical of him that he should spring to the Home Secretary's defence. However, I stick to what I said: the announcements made by the Home Secretary were serious enough, because of their effect on the whole pattern of broadcasting in this country, to warrant a separate statement being made to a House which, as he knows, would probably be much fuller than it is today. He could then be questioned on it by both sides of the House.

We are talking not about whether there will be cabling, but about how it should be done. We say that it should be done with sensible regard for standards and the range of services, and that there should not be some commercial free-for-all in which yet another promised pot of gold is held up for people wih the longest arms and the biggest bank balances so that they can grab what they can. I remind the House that when speaking about the introduction of commercial television Lord Thomson said that it was a licence to print money.

Sadly, the Government seem to want some sort of almost wholly unregulated free-for-all. In a democratic society, that is wrong. We are not talking simply about another arm of the entertainment industry. Some of the programmes will, of course, involve entertainment, but I hope that much of the content will be of a more serious educative and informative nature. However, that should not imply any dullness. As an electorate, our need is still for more relevant information to nurture and extend democracy. That may sound a little dull but it is not. If democracy is to survive and grow, it must be on the basis of more people having a fuller and thus better understanding of what is going on.

As has been said, cable is a two-way street. It can take programmes into homes that sign up, and through the tree

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and branch system, can offer communcation between the home and, for example, banks, supermarkets and businesses. I have even seen it suggested that it could be used for voting, although I very much hope that that does not come to pass. Cable, as with other forms of broadcasting, suffers from one major fault, which is that one cannot ask it questions and receive answers. To the best of my knowledge, that facility is confined to those who attend meetings and who listen to human beings rather than to machines.

The development of cable is crucial, both directly and indirectly, for jobs. There is potential for jobs in the laying of the cable, and in the manufacturing and supply of the equipment used. As recently as last Friday, a report from Paris in the *Financial Times* said:

"The French Government intends to keep foreign communications equipment manufacturers out of the country's new cable television industry for the time being."

I know that that will be of particular interest to the Minister. The French Government have made it clear that foreign equipment makers would be allowed to take part only on the basis of reciprocity. The report states:

"in the absence of major agreements . . . France 'will construct its cable networks on its own'".

I think that there is a message there, even for this Government, given that they crow on about the need to create new and real jobs. The Government now have a chance to put what they preach into practice. There are other areas of potential job creation or job loss. I refer, for example, to the jobs of all those concerned on the technical side of making programmes, and to the scriptwriters, actors, actresses, artistes, musicians, songwriters, authors, writers and journalists. There is a long list of such people.

In his laid-back and detached style, the Home Secretary did not deal anywhere near seriously enough with the argument for the imposition of a quota. I am arguing not about the size of that quota, but, in principle, for a quota. My right hon. Friend the Member for Gorton reminded the House of the absolute assurances given by the former Secretary of State about what he expected to be achieved by the Cable Authority. He laid upon it a duty to report. He said that the Cable Authority

"will have to show that there will be a progressive reduction in the amount of foreign material that is used." — [*Official Report*, 27 April 1983; Vol. 41, c. 873.]

That duty is not enshrined in the Bill and there was no sign today from the Home Secretary that he had even taken that point on board.

Of course, we are used to Governments claiming the parenthood of White Papers, and then proceeding to ignore what they say or to claim that they have had not just later but better thoughts. Paragraph 119 of the White Paper of April 1983 states:

"There is little doubt that the existence of the quota for television has contributed to the establishment of a strong domestic production capability, within both the BBC and independent television."

It went on to say:

"the quota has ensured that foreign material has not flooded the screens and that what has been shown has generally been the best of what is available."

I suspect that what is at issue is where we should start. The Government argue that we should start from the bottom and hope that cabling will be such a rip-roaring commercial success that when more money is available in future years standards will rise. But what happens if, after the best efforts of those involved, the project goes wrong and it is proved that it does not work on the scale that some people expect? Opposition Members and, more important, people whose jobs, livelihoods, futures and careers depend on it fear that, should that happen, standards in the existing broadcasting organisations will have been so lowered that it will be impossible to raise them again.

My hon. Friend the Member for St. Helens, South (Mr. Bermingham) said that there would be only a limited audience available. There are not millions of people who do not currently watch television programmes but who wait for the advent of cable to switch on. The existing audience will make choices which will inevitably take viewers from the public broadcasting and commercial sectors.

I hope that the Government will not remain deaf to the arguments of those in the industry who fear the consequences if an understanding about quota is not reached, whether enshrined in the Bill or worked out by the Cable Authority in the form of a gentleman's agreement, as the hon. Member for Thanet, North (Mr. Gale) described it. The Government will say to the Cable Authority that they expect it to do its best to reach an agreement and to draw a bottom line. There is no need to go into detail about quotas because we are considering them in the context of the European Community.

We have debated the cost of buying foreign material, mainly American, and the cost of originating it in Britain. I accept that comparisons are not as easily made for the second or third showing as for the originating cost of the programme or of buying it after it has been exhausted on the American market. Nevertheless, given the initial investment there must be an obligation under the Companies Act on those responsible to run the companies in the way that best serves the interests of the shareholders. That is their first obligation. They will receive no thanks or medals for losing money. They must ensure that those who make an investment in cable television receive an return on that investment in a foreseeable period.

Many of those involved in the early days of cable television will be tempted to see how they can fill the hours — we are envisaging a continuous service — when audience ratings are extremely low or the viewers are not attracted to advertisements.

The Entertainment Network sent us an interesting document called TEN. It states:

"United Cable Programmes Limited is owned 55 per cent. by four British companies — Plessey, Rank, Rediffusion and Visionhire, and 45 per cent. by UIP, a consortium of Paramount Pictures, MGM/United Artists and Universal Pictures".

I am told that there is no such thing now as films being made exclusively for showing at the cinema—big screen pictures. The organisation has an extremely interesting line-up which includes four of the former giants of the old-fashioned cinematographic industry. Its advice on quota is that it is

"entirely proper that the Cable Authority should have the obligation of ensuring that proper proportions of programming orginate from the EEC."

It adds:

"We would, however, regard as disastrous anything being written into the Bill by a Commons amendment requiring a specified proportion of programmes to be of EEC origin."

That view is not surprising as the organisation has a vested interest. Precisely because vested interest has spoken with such clarity, we should pause for decent thought about where that road will lead.

The general fear, about which the Government are sensitive or with which they disagree, is that once quality has been lowered in the existing outfits they will be unlikely to recover. A further aspect is that the NUJ rightly fears that in the important news and current affairs programmes from the EEC, America or elsewhere there will be no requirements to achieve the accuracy and balance at present achieved by the BBC and commercial stations. Clause 10(1) *(c)* states:

"that all news given (in whatever form) in programmes which originate in the United Kingdom is presented with due accuracy and impartiality."

That is precisely the point. We cannot legislate for programmes from other countries, only for programmes originating in the United Kingdom. A fairly large number of programmes, especially in current affairs, will originate in other EEC countries or the United States of America, and will touch on issues of interest in Britain, but we shall have no control over their standards, accuracy and impartiality.

Despite criticisms from time to time, accuracy and impartiality distinguish what are recognised to be generally first-class programmes, especially by the BBC, but also by the commercial companies, from some of the tripe which is churned out on about 100 channels in most major cities in the United States. Any hon. Member who has entertained first-time visitors from the United States will know that when they watch our television they can hardly believe their eyes. They can hardly believe that they can watch television for an hour and three quarters without regular 10 minute interruptions during which people try to flog them goods. They cannot believe the controls that exist even on the commercial channels.

The NUJ makes another point of which we should be aware. I do not wish to sound Luddite, but it is possible that cable will pose a real threat to local radio stations — both the BBC and commercial ones — to local newspapers, and hence to jobs. I suspect that hard up against the union's concern is the threat to the existence of those outlets for views, news and opinions. Local newspapers generally serve their communities well, and they have adapted and adjusted to the competition from local radio so that now, by and large, they manage to live side by side.

Unless there is a sustained and rapid development of British-originated material, cable might pose a threat to the nursery end of the business. We must continue to provide and to expand opportunities for new entrants to learn and refine their skills and obtain experience. If there is a cut—some of us fear that there may be—in British programmes, or a lowering of standards because of the over-use of foreign material, the authors, scriptwriters, musicians, songwriters and the rest will find it extremely difficult not just to earn a living but to obtain the experience that they need in order to flourish.

The Society of Authors argues that the provisions for copyright in the Bill still contravene the Berne copyright convention. The society states:

"Most serious is the lack of copyright protection given to creators of works transmitted via point to point satellites."

I should be grateful if the Minister of State would say something about that when he replies.

I shall need much persuading that the new Cable Authority stands any chance of being even half effective, in view of our experience with the IBA. On two recent occasions the IBA either connived at or turned a blind eye to those granted franchises for television stations tearing up the contracts on which they were granted the franchises and doing many things which were not proposed in their submissions. I understand the reasons for it, but it demonstrates the ineffectiveness of the IBA. Both cases arose because of cash crises.

The first case was with London Weekend Television and more recently a similar thing happened at TV-am. Such were the changes made by those contractors that it would have been far wiser and in the best interests of the industry had the IBA either called in the franchises or at least imposed a moratorium while matters were sorted out. It is possible that the applications of some companies were turned down because they wished to do precisely those things, but some months later those who were granted the franchises said to the IBA, "We have run out of cash and unless we do this we shall go to the wall." To that extent, they got away with it.

I remain extremely sceptical about the likely success of cable, but I know that my opinion will not influence anyone's commercial decision to invest money in it. It has already been said that there has been an astonishing growth in the private ownership of home videos, and that several millions of people hire videos each week. I am not an enthusiast for the Bill, but nor am I a Luddite. My point is that the introduction of this new technology with all its potential should be handled in the public rather than the private interest.

7.25 pm

Sir Geoffrey Johnson Smith (Wealden): I listened with great interest to the hon. Member for Birmingham, Erdington (Mr. Corbett) who, typically, in his candid way, revealed his doubts and fears about the possible success of cable, but who equally was kind enough to suggest that it is not a matter on which we should put up a token resistance or resist on Luddite grounds. He is right to take at least some encouragement from the fact that some people are willing to risk their money, not the State's money. Had taxpayers money been involved, I believe that I know how he would have voted. I cannot predict with confidence how this venture will develop. All that I know is that most of the predictions that were made about commercial television were completely wrong.

I declare an interest in that I am a non-executive director of the holding company of London Weekend Television. I heard what the hon. Member for Erdington said about London Weekend, and I assure him that it happened long before I became involved. He will be aware that the IBA insisted on a considerable management shake-up in that company, and we can all agree that the company as constituted has provided British television audiences with a high standard of programmes.

Last year I congratulated the Government on their White Paper. The Bill, which has had the benefit of being improved in the other House, largely meets the objectives of the White Paper. However, it will need further amendment if it is to meet the practical needs of prospective cable operators. The amendments which I wish to propose deserve consideration because we must examine cable in an up-to-date context. Much has happened since the White Paper was published and the Bill

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was drafted. We have all developed a clearer understanding of the scope and limitations of cable and its likely impact on the traditional methods and existing patterns of broadcasting.

I do not wish to go into too much detail now, but later I shall develop the thought that since March the prospective cable operators have expressed considerable shock at the Chancellor's proposal to phase out capital allowances.

Following last year's debate on the White Paper much has been heard about the expense of providing cable television, and many hon. Members referred to it. It has led some to say that it will force cable companies to appeal to the lowest common denominator in an attempt to attract mass audiences. We have been warned that the knock-on effect on existing commercal companies and the BBC will be severe and will change the entire ecology of broadcasting. These fears have run through the debate today. It is argued that the IBA companies will be shorn of their advertising revenue by cable, that audiences will be seriously fragmented, and that this will cause a further decline in revenue. The BBC will feel a renewed urge to justify its licence fee, and, together with the IBA companies, will plunge into a mad struggle for ratings, leading to an inexorable decline in standards.

I have never subscribed to this gloomy scenario, which was often, although not exclusively, adumbrated by those who seriously entertained the idea that this Government would introduce a monster of unregulated television. I can recall many occasions when I have been involved in debates outside the House, when people have said that the whole thing would destroy the ecology of British broadcasting because the Government would introduce unregulated broadcasting. No Government, even those who embrace the philosophy of a free market, would dare to do such a thing, at least for many years to come. They are too keen to ensure that there is a framework of control and regulation, sometimes for laudable reasons, sometimes for less laudable ones.

It is true that we have benefited from the framework that has been successively introduced by Governments. However, I believe that if we are not to have an unregulated form of broadcasting through cable we should be equally careful not to smother it with misguided kindness through new forms of regulations that might make it impossible for the infant to survive. The Bill has slain the spectre of unregulated broadcasting. Although it will not satisfy those who are irreconcilably opposed to cable, it goes a long way to reassuring those who seek to ensure that the present standard of broadcasting is not undermined. I congratulate my right hon. and learned Friend the Home Secretary, his colleagues at the Home Office and their advisers on what they have done in trying to get the balance right.

The rejection of the so-called adult movies, the opportunities for independent television companies, and the investment in private programmes for cable are all measures that I welcome. So, too, is the provision which, by permitting cable operators to provide sponsored programmes and pay-per-view, will reduce the pressure for more advertising material, on which IBA companies are completely reliant for their revenue.

More important than anything else in the Bill is the realisation—this has not been sufficiently appreciated by some hon. Members who have spoken today—that half of Britain is unlikely to get cable. Even if the proportion is as high as 50 per cent., such is the cost of investment that it is unlikely that we shall achieve 50 per cent., for many years. This has important implications for the existing broadcasting organisations. Surely it means that they will retain their universality and, with it, their dominance of the market. If they fail to retain it, there will be something wrong with their competitive powers as well as with their creative abilities.

In addition, the experience in the United States has demonstrated that cable is not a licence to print money, so it will not have the resources to steal the existing talents and wipe the floor of competition. Some people use the argument the other way. They say that it will be so difficult to make money that cable will rely on cheap imports. That argument was advanced by the hon. Member for St. Helens, South (Mr. Bermingham).

As my hon. Friend the Member for Gravesham (Mr. Brinton) said, cable is not just ITV in another guise, nor is it another form of public service broadcasting. In fact, those of us who have studied it closely have come to realise that it is not even broadcasting as we know it because it is not openly available to off-air trasmission. Increasingly we have come to recognise it as offering a challenge to us in terms of legislation. It is something new and unique that deserves safeguards, paricularly in its infancy, just as public service broadcasting deserves its own safeguards. It is our hope that the two will live side by side, and the Bill goes a long way to recognising it.

Cable has a potential that offers an interesting financial and intellectual challenge. It has inter-activity and a multiplicity of channels, should be able to harness the financial resources of international consortia and should, with all these changes provide a worthwhile service that is different. Most importantly we should encourage the development of cable in the hope that entertainment-led investment will open up the possibility that people will be able to buy, sell, bank, shop and work from their own homes using their link with cable, just as we hope that cable will provide new jobs for British industry.

However, in the world of communication—it is not unique in this—entrenched interests and habits take a hold of even the most imaginative people. It is understandable that some fear the technical effects that this can have on their well-established practices. As I have shown, the risk is worth taking. There are those in broadcasting and outside in the theatre and movies who recognise that cable offers a challenge that is worth taking.

I congratulate the Government on taking a positive approach. However, problems face the industry. It must have a benign financial climate. I make no apology to the Minister for touching on some of the recommendations voiced in the other place, because some of the suggestions demand further investigation by the Government with the object of trying to improve the investment climate and make the prospect more interesting for those who wish to take a licence.

For example, there is the varying of licences. We all know that if it is to work cable television and cable services must be operated on a light rein. I do not know of anyone who fundamentally objects to that. However, if it is worked on a light rein, it seems to those who want to participate that the power to vary licences is very wide, and that the power on the authority to vary the licence should be strictly prescribed.

The Government have given the impression elsewhere that they intend to amend clause 4(7) so that the period of a licence cannot be varied without the consent of the licensee. It will be in the Government's knowledge that the Cable Television Association does not believe that the amendments that it thinks the Government have in mind will go far enough, and that the Cable Authority's power to vary the licence goes too far. I express no personal opinion on this, but I hope that the Government will give consideration to that point, if not when my right hon. Friend replies, when the Bill goes to Committee.

All along, before the White Paper and running through the debate in the other place, there has been a fear that the Government might be tempted to give increasing powers to the Cable Authority because we are used to strong authorities such as the IBA and the BBC's board of governors. We all know that there is an administrative cost. It is troubling that those who are thinking of seeking a licence are concerned that when the Cable Authority is set up it may not be sufficiently limited by the Bill to ensure that they take only a fair proportion of the administrative costs of the authority. They want to be sure that in no way can the authority indulge in excessive expenditure, and that it should not be permitted to cross-subsidise between franchise areas — the authority charging excessive fees in profitable areas and uneconomic fees in unprofitable areas.

That was thought to have begun to creep into the development of independent radio. We all know how eventually we had to be rather more careful in the way in which franchises were given in independent radio as some of the more prosperous companies began to think that they were in danger of acting as subsidisers of the less prosperous areas. That is a worthy social purpose, but we are not engaged in this business in social engineering. Either we look upon this as a straightforward form of private enterprise investment or we do not. If we saddle the authority with the feeling that it has some great social purpose, I fear that we shall fall between two stools.

The other complaint will not be new to my right hon. Friend—the protection of sporting events on pay-per-view terms. Everyone to whom I have spoken who contemplates seeking a licence recognises that there must be protected sporting events. At the same time, one is disturbed to hear that they believe that the terms remain unduly restrictive. They argue that there can be no objection in principle to an operator showing events on pay-per-view terms, providing that he does not obtain exclusive rights to those events and that broadcasters are able to continue to broadcast the same events. That is how they put it and I agree with them. I see no reason why we should not be allowed on a pay-per-view basis every ball that is bowled in any test match. I do not see that the pre-emption on an exclusive basis of the centre court at Wimbledon and the finals there by the BBC or ITV should preclude the possibility of a pay-per-view of Wimbledon through cable. If people think that it should not include the final of Wimbledon, there is plenty of Wimbledon that people would be willing to pay for which is not covered by the existing channels. That matter needs looking at.

I congratulate the Government on not yielding to the deceptive voice that we would have better cable if we had a fixed quota. The simple truth that many often do not like to admit is that Britain does not produce enough to satisfy the different demands of existing channels and we have to rely on imports, many of which are of an extraordinarily high standard. To expect cable operators to rely on the exclusive or heavy supply of British material will soon lead to it running out. In any case, a large proportion of it would be just as bad as some of the programmes that we already import. We are right to insist that there should be no quota. I should not mind if there were a fair proportion of what some hon. Members might regard as rubbish. If it has appeal, if it is a way of helping to make money, as someone once reminded me, in the words of Horace, "First acquire wealth then practice virtue."

A point that is often missed is that even supposing the cable operators, for some misguided reason, decided that the best way to attract their audiences was to rely on the lowest common denominator, would that have such a sensational or dramatic effect? Would it have any effect on the taste of British audiences for existing ITV and BBC productions? After all, we are not talking about a network. We are not even talking about something the size of Channel 4. We are talking about small organisations which are serving a limited audience in certain areas of Britain. Over a period, given a favourable investment climate, entrepreneurial sense and good marketing, providing people with what they want, they might at some time achieve—goodness knows when—a target figure of 50 per cent. of people who live in Britain. Therefore, even if I were to put forward the argument of the lowest common denominator, it would not say much for the existing standards or tastes of the British people to assume that the audiences which have been built up by existing companies would wither away as people made a mad scramble to try to get hooked up to cable, always supposing that they could. To persist with a demand for a quota of British programme material, though it may have the worthiest objectives, is not rooted in the practical facts of the development of cable.

I turn to the question of capital allowances. Every industry—shipbuilding, films and many more—have written to the Chancellor arguing for relief from this measure that he has introduced in his Budget. In today's mail came a letter from a well-known firm, Ladbroke, which is worth bringing to the attention of the House. It says that a distinguished firm of chartered accountants, Messrs. Deloitte, Haskins and Sells, has

"carried out an evaluation of the implications of the Budget proposals on a typical cable television system. Their findings, which appeared in the *Financial Times* on 12th April 1984, show that for a company making maximum use of tax relief the yield over a 12 year period falls from 13·5 per cent. to 7·5 per cent. and the breakeven point does not come until year 9."

Later, the letter draws my attention to a speech made by Mr. Peter Laister, chairman of Thorn EMI, giving the Fleming memorial lecture to the Royal Television Society. In that speech Mr. Laister refered to the decision by the Chancellor of the Exchequer to cut corporation tax and to remove 100 per cent. capital allowances. Mr. Laister said that that is fine for established industries which are already well into profit but the effects of that on cable and satellite might tip the balance of decision in all marginal cases. He says:

"if ever there was a case for enlightened Government support for emerging industries, then this must be it . . . it is clear that unless the substantial cabling costs which form such a large proportion of the fixed investment"—

that is true—

"can be either sheltered or shared then the investment programme will be somewhat uncertain."

We are all accustomed to receiving such letters. Some hon. Members might develop a scepticism as a

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consequence. But we know that there is a heavy initial capital investment. Mr. Laister said that if areas of half a million homes were considered in the second round of cable franchises the capital expenditure for a single franchise might be as much as £150 million. At this stage, I cannot give an informed judgment in which I would have any great confidence, but I do not think we should ignore the warning, when it comes from such a source. I do not think that Mr. Laister is chairman of Thorn-EMI without knowing something of the cost of such investment.

I hope therefore that the Government, if not tonight, at some future date, will bear in mind this kind of representation. It brings us back to the simple point that, if the Government are to encourage new entrepreneurial energies, they must create the framework in which new investment is to take place, otherwise we shall not have entertainment-led cable with private money put into it instead of State money.

I deal finally with a different matter. I apologise to my right hon. Friend that my duties in another place made it impossible for me to hear his speech, or, indeed, that of the right hon. Member for Manchester, Gorton (Mr. Kaufman). I understand that there is to be a consortium of which the BBC would have half, while the other half would be divided between some ITV companies and some new independents which may want to participate. The project will be responsible for three channels, one film and two channels of mixed programmes. We want to know how that will be done, which ones will carry advertising and which will not, and whether all three will have responsibility for providing films. I believe that this three channel mixed consortium will present a complication to those who have been accustomed to working in separate compartments. I hope that my right hon. Friend, in winding up, can give some guidance on how he foresees the development.

I am concerned, too, about the proposals to enable existing ITV companies to take part in the new project. We all know that their present franchises run out in 1989. It is proposed that the new satellite project should get under way at the end of this decade. If the IBA will not be under an obligation to readvertise contracts, but will retain a complete discretion as to whether to do so, this will give no guarantee to an ITV company that its contract will be renewed. At what stage before 1989 will an ITV company know that it will not be able to take part in the new consortium, but will know that, come 1989, its franchise will be renewed? From what the right hon. Gentleman has said today, that has not been made sufficiently clear. I cannot see any independent company seriously negotiating with the BBC and talking about satellite television until it is sure that its franchise will be renewed. If such a company goes down the track of talking to the BBC, and, after six months of talks, goes to the IBA and is told, "Sorry, chum, you've had it, you will not be allowed to have your franchise renewed", I cannot see this getting off the ground. It is possible that, my having been absent, I have been insufficiently informed of the Government's intention.

I am delighted that my right hon. Friend was able to instil new confidence by announcing the radio network. Whatever reservations one might have about the climate that is being created by the Government for this new venture in cable or direct broadcasting by satellite, I think that most hon. Members would agree that the Government, in a remarkably short time, have taken encouraging and important initiatives that bode well for British broadcasting and for those who make their contributions technically or artistically.

7.55 pm

Mr. Gerrard Neale (Cornwall, North): If I may join my hon. Friend the Member for Wealden (Sir G. Johnson Smith) in his remarks about the Bill, and about the attitude of my right hon. and learned Friend the Home Secretary to the subject, I think that the Government, by their reaction to the initial Hunt inquiry and by the way in which they have accommodated amendments in another place, have shown a willingness to accept the possibilities in cable. The two aspects that deserve most congratulations are, first, that they have resisted becoming involved in any way on behalf of the taxpayer, and, secondly, that they have resisted the regulatory overkill, which is always tempting in such subjects, and which would have been disastrous for the future execution of cable projects.

Having listened to comments by Opposition Members, one is mindful of the doubts expressed about video. Various projections were given of the number of video recorders there would be in this country, and of the amounts per month that people would have to pay, and gloomy estimates were made of how few people would take up the opportunity. One third of homes in this country now have video, and many have home computers. One aspect of which I am sure my right hon. and learned Friend is aware — an aspect of which I know my right hon. Friend the Minister for Information Technology is aware — is that the interactive services that will become available on the cable system will draw together the potential of video and home computing in a way that could not have been imagined five years ago.

As some of my hon. Friends have said, it would be possible not only to have a two-way process of information, but to call up information on one's video overnight through the cable system, at a time when no programme was being transmitted. The following morning, one would be able to digest it, and call up the concern from whom the film matter had come and order holidays from a travel agent, and so on.

I wish to support what my hon. Friend the Member for Wealden said. I shall refer to several of the points that he made, and seek to reinforce them. The first is the change in tax provisions announced in the Budget. My hon. Friend read out certain information that he had received. I hope that representations will be made so that, the Chancellor of the Exchequer will understand that, whatever may be said about potential for cable, about the potential for programme makers in the country, and about the chance for people to enjoy these interactive services, and for educational purposes to be improved, none of those things will happen unless those who have an interest in installing cable systems can see a return from their investment.

The Home Secretary made it plain that he wanted the minimum regulation and the maximum incentive for the systems. The Treasury must think more seriously about the effect of the changes. I do not suggest that the allowances should be continued, because that would be inconsistent with other fiscal policies, but as an alternative, the 12-year term for licences under clause 4 should be extended to 15

years. Licences for longer terms have been offered in the telecom business, bearing in mind the considerable investment sums involved.

When it comes to amending a licence, the risk involved must be considered. If anyone wishing to enter the cable business believes that the authority has too great a power to amend the licence at will, confidence will be affected. An amendment was made in another place to enable representations to be made, but the major anxieties still exist.

I congratulate the Government on their attitude to the programming quota. We do not feel any less strongly than Opposition Members about the need to promote a home-based film industry, but in the early stages of the development of the cable industry in Britain we cannot impose a quota of British-made programmes—in so far as one is able to judge what is British-made—without endangering the future of the industry. Those interested in promoting a home-based programme-making industry must want to ensure that the cable systems are established on a viable basis to ensure a long-term future. Those interested in investing believe that they must be free from any set proportion of British-made programmes. We should consider that view seriously.

Another aspect touches upon the standards of home-made and foreign-made programmes put out on the cable systems. It is clear that, if cable systems are to succeed in Britain, the cable operators will need much more information about viewers than is currently available to the existing channels. Consequently, sophisticated analysis is already being adopted to establish what makes an individual viewer watch a particular channel and—more important—what makes a person switch away from a channel or stop paying the cable operator for a service. The cancellation rate is as high as one third in any one period. It is as important for cable operators to discover why they lose custom as it is to know why they gain it. In that way, cable operators should be able at all times to analyse the quality of a programme as assessed by the people who pay to watch it.

The Bill is excellent in that it brings before the House a series of measures which will allow the industry to develop in a way suited to the demand in the country. The right hon. Member for Manchester, Gorton (Mr. Kaufman) was depressing about the Opposition's view of the Bill. The right hon. Gentleman delivered an extraordinary speech. He seemed to argue the case from all sides against the middle. First, he made out that there was no evidence of any demand, and then suggested that British Telecom should be given the exclusive rights to cable Britain. His speech was extraordinarily difficult to follow.

I am convinced that if the Government consider limited amendments in Committee they will have a Bill that will offer the cable industry the opportunity to cable Britain and so provide many people with a wide range of services.

Perhaps it is strange to mention the rural areas, since it is suggested that the cable system will be of little use to them. A number of places in my constituency will benefit from the Bill. I have in mind areas which previously found television reception almost impossible unless localised aerials and tranmitters were provided to communicate with villages deep down the steep hills. Such villages will be offered the opportunity under the DBS system to use dishes which will not necessarily be available to other areas. Even in an area such as north Cornwall there will be a gain, and I am grateful to my right hon. and learned Friend for providing it.

8.8 pm

Mr. Austin Mitchell (Great Grimsby): I am surprised that the hon. Member for Cornwall, North (Mr. Neale) concentrated on the benefits for his constituents because the possibility that north Cornwall will be wired is remote indeed. I am surprised that he did not mention his own interests as a director of Telecom Rentals, the clients of which are Air Call Ltd. He should have declared that interest. I declare my interest as a member of the National Union of Journalists, but I have no intention of agreeing with what Government Members have said in that connection. We have heard a procession of hon. Members praising the Bill with faint damns or clutching at it with open hands because of the money involved.

I agree with what my hon. Friend the Member for Birmingham, Erdington (Mr. Corbett) said about the impropriety of introducing the measure with a sweeping and wide-ranging announcement about a national commercial radio channel which will have an enormous impact on the media scene. That seems to me to be one of the most unnecessary innovations that one could announce. The contracts for ITV are being set in aspic. The Home Secretary has made a momentous announcement for the future of independent television which has little to do with the Bill. It is not desirable to sneak in such announcements in the introductory remarks on a Bill.

Inevitably, the Opposition in general welcome the advent of cable television because we welcome anything that widens choice, offers more diversity and encourages the move towards a more pluralistic society with more sources of entertainment and information at its disposal.

One section of the people would welcome the advent of cable television. A survey carried out by the Consumers Association, and published in the February edition of *Which?*, shows not only that there is a high level of satisfaction with current television — which represents good value for money—but that a substantial majority of viewers want greater choice of television programmes and that a small, but significant, minority are prepared to pay for that either through subscriptions, pay-per-view or an increase in the BBC licence fee.

The bugbear of video has been mentioned. It is interesting to note from the survey that although one in four households owns a video, and there is a demand for a wider range of programmes, video owners are most attracted to cable television. They have been caught by the bug and are now avid for more variety. I accept that demand exists, although it is a minority demand and the service will be provided for only a minority of that minority. Only the urban areas will be catered for, but as the demand is there it should be met.

Pluralism in media is a solution to many of the problems of the media, which are so often debated in the House. Less obsessive attention would be paid to the accusations of bias by the BBC and ITV if there was a diversity of media. Attention would shift to a wider area and different points of view would be put, which is all to the good.

The problem is whether the Bill is the proper way to proceed or whether it will simply move us towards the lowest common denominator. Will it do for the existing institutions what *The Sun* did for tabloid newspapers? Will

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it drive the service down to the lowest common denominator and weaken the existing institutions, of which we are rightly proud and which have made such an important contribution to entertainment, information and our way of life?

Given the clear confusion in the Government, we wish that they would hold the measure and reconsider it at greater length, if only to clarify their own thoughts. It is not the Opposition who need to get their thinking clear; it is the Government. The whole progress of the measure has been one of steadily changing assumptions. The Government attempted to rush cable on to the country and the House, which was a disgraceful piece of social engineering and impetuosity.

The rush has now slowed to a Gadarene amble, but the speed with which the Government embarked upon the measure led to undesirable developments. For instance, the information technology advisory panel provided the original initiative. It comprised a collection of vested interests invited to be judge and jury of their own case. Its report was inevitably slanted in the direction that was to be expected from the composition of the panel — it recommended the rapid, deregulated development of commercial cable systems. Following a note of dissent from the Opposition, that was followed by the Hunt committee. It was one of the less successful committees of inquiry. It was as though the good Lord Hunt set out deliberately to put his mistress's voice into the report. It effectively took the industry at face value and moved, although more ploddingly, along the same road as the 1981 ITAP report.

We then had the Government's declarations of enthusiasm, which were the impetuous stage. We have now moved to the cooler stage when it is clear that the assumptions on which the initial rush was based have not been justified. One section of the Government does not know what the other section is doing. The atmosphere has chilled. The commercial prospects for cable television have become harder. The Government originally wanted to carry through the cabling of the country—the second railway era—on the back of the private finance capital lured by the prospect of returns on entertainment. That prospect has faded.

There have been a series of mergers in the industry. Goldcrest, which, with high enthusiasm, proposed to establish a 24-hour-a-day news service, now says that only ITV and BBC can do that, and that it is not a viable proposition for an independent company. The music channels have merged—one of the big hopes—and their prospects have shrunk and become bleaker. Indeed, it is rumoured that three of the 11 contractors with initial franchises are in financial difficulties. I hope that notes are being kept faithfully for the Minister and that, when he returns to the Chamber, he will tell us whether those reports are correct.

The CIT report has downgraded the forecasts for the growth, financial return and prospects of cable, not only in Britain but throughout Europe. That has been capped by the Government's contradictory position in the Budget which swept away the 100 per cent. capital investment allowances. That was a curious spectacle. In the same week the Chief Secretary to the Treasury told the cable companies to rejoice because they would have 100 per cent first year capital allowances on plant, but the Chancellor announced that he was phasing out and abolishing those very same allowances. One of the basic assumptions on which the companies had worked out their financial calculations was swept away, in one fell swoop, by the Chancellor.

That is typical of what is happening in the Government. The Treasury, which is committed to the rigours of the free market, is working against the interests and developments cherished by the Department of Trade and Industry, which believes in a more interventionist approach and which is prepared to back new technology and provide financial incentives. Indeed, the Home Office is prepared to provide non-financial incentives to invest in optical cable or star cabling, as opposed to tree and branch cabling. Yet the Treasury, with its belief in free markets, sweeps all that aside and announces the abolition of the very basis of the companies' financial calculations. As a result, the expected yield of cable contracts has been halved in one fell swoop. The break-even point, which was always hypothetical, has been substantially put back.

Does one half of the Government know what the other half is doing? Did the Home Office and its officials who were negotiating with companies know what the Chancellor intended? Did the Treasury make any assessment of the effect of the slashing and abolition of the allowances on the financial projections of the companies? Was the Home Office consulted? The Government's insistence that this should be done on the basis of a free market did not seem likely to be sustained in the face of the facts of the market, the low return and the difficulties that cable would inevitably face.

That approach has not been adopted by the continental countries. For example, the French have gone in for direct Government finance, and in my view such an approach is inevitable because the market is not strong enough to bear the burden that it is being asked to carry in the cabling of the country and providing all the other services. If it is not strong enough to carry that burden, disastrous consequences must follow, a subject to which I shall return.

It is interesting to note the way in which the French have decided to go down the other road, beneficially for them in many respects. They have gone in for fibre-optics, whereas we have gone in for the old-fashioned coaxial cable. A stimulus to the British fibre optics cable industry will not exist, whereas there will be that stimulus in France, provided by Government money.

By going in for the star formation, rather than the tree and branch — we have provided only a slight, non-monetary incentive for that course — and by direct Government finance to provide the incentive which private capital will not, in my view, provide on the scale required, the French, by the intervention of 1 billion French francs, or about £87 million, to get the system under way, can project 1·4 million homes being cabled by 1985.

In other words, the French plans—and I emphasise that they are plans—are much bigger than ours because they are aiming by 1986 for an annual rate of cabling of 1 million homes, which is beyong the dreams of the companies which are involved in this country. The French are right in their approach, and the British Government are wrong, because entertainment does not have a broad enough financial back to carry the burdens that the Government are placing on it.

If the Government's hopes for a free market effect, by luring investment into this sphere and providing a viable

industry, are not justified, there will be two results. The first is that the companies will abandon standards and cut back, and we have seen what happens in the face of financial difficulties. In the case of London Weekend Television and TV-am, the initial prospectuses were chucked overboard without any scruple of conscience and the IBA—it had no power to do otherwise—let them get away with it.

They will not be driven in the direction which they might logically go — of the increasing provision of pornography or sport, for which there would be a popular demand, not that they are two versions of the same activity — so they will be forced to cut standards and programme costs with disastrous effects on the production industry in Britain.

The second consequence is that the Government will be forced to allow them further latitude by way of telephonic communications through cable networks, in other words, to turn them, in effect, into competitors of the newly privatised British Telecom. That means allowing them financial inducements by taking on other financial activities because entertainment will not have yielded the benefits that were prophesised.

There will be those two changes consequent on financial failure. It looks from the calculations that financial failure is the more likely possibility—I would call it a probability—and if that happens because the Government do not have their facts and figures straight, and if their expectations are not justified, we shall be lowering standards and carving out more areas to hand over to the cable companies. We have here proposals for an entirely new structure and regulatory authority. One must, therefore, ask why this function cannot be handed over to the IBA to perform. Why must we go to the expense of setting up yet another quango in this fashion?

As the point was raised in the Minister's speech, may we be told why the Government are now trying to lure the commercial television companies into investing in direct broadcasting by satellite with the prospect of automatic renewal of their contracts? I accept that the provision for periodic renewal had many faults and that it was not carried out in the most effective way on the last occasion. Mistakes have been made; there will always be mistakes and complaints.

Nevertheless, the idea of bringing all the contracts to a close at the same time and considering them anew had the great advantage of reshuffling the whole pack of cards. It provided for the infusion of new talent and it was an incentive to people to challenge existing incumbents. That revivified the system and made the incumbants improve the quality of their programmes, especially local offerings such as current affairs.

If that is now to be abandoned so as to lure companies into investing in direct broadcasting by satellite—with the promise that if they put their money into that venture the IBA will abdicate its responsibility for the periodic reshuffling of the cards—there will be a weakening of the IBA and an unjustified weakening of the check that exists for the benefit of the public.

Mr. Hurd: It would be a weakening, but what the hon. Gentleman has described will not happen. The arrangements—the situation in 1989—remain and the IBA retains complete discretion to re-advertise if it wishes. The only change is that there will no longer be an obligation to re-advertise.

Mr. Mitchell: The Minister concedes the essential point. That obligation kept companies up to the mark, allowed the infusion of new talent and meant a shake-up periodically, which was all to the good. The IBA is always in danger of entering into a cosy conspiracy with the companies that it is nominally designed to supervise and superintend. It wants a quiet life. It does not want all the difficulty and embarrassment. Faced with that permission from the Government—who want the money from the television companies in terms of direct broadcasting by satellite — it will opt for a quiet life. That is a real danger because the periodic opening up of the floodgates of competition, of new talent and of new bids for areas kept the companies on their toes.

If there is to be the same sort of contract as we have had in commercial radio, with all the contracts continuing on without being unrolled, it might be sensible, given the Government's attitude to privatisation, to scrap the IBA, which will have no real role if it is not to reshuffle the pack of cards periodically, and flog the transmitters to the companies as an extention of the Government's programme of privatisation. They could be sold to the companies at a 20-year rental purchase price, the Government would have the money and the whole pretence that there will be renewal and that a check will continue to exist could be abandoned.

That slight detour was caused by part of the Home Secretary's opening speech. The rhetorical question is "Why do we need another quango?", and I do not think that it has been answered effectively by the Government.

I am concerned about the effect of the Bill on domestic production. The Government are obsessed with free market economics, but those economics do not apply in television and film production. Our small market competes with a much larger and highly developed industry in the United States. If there is a financial desperation to move down market and to buy programmes at the lowest possible cost, the programmes bought will be the surplus production of the American industry. That is the Coca-colonialism which is complained of in so many parts of the world and which we have managed to avoid in Britain by maintaining a quota of British programmes. The quota applies to both the BBC and ITV.

The financial predictions for the companies and production costs are dire. In a publication entitled "Cable and Satellite—Choice or Overkill" from the Association of Independent Producers there is an article by a director of Cable and Finance Ltd., a firm of ex-bankers that is undertaking research into export possibilities. It is estimated that the cable companies will be able to pay an average of about £2,500 an hour for production and that there will be an industry budget of £4,800 per hour for production costs. The average of £2,500 is a measly sum when set against the scale of production costs for the BBC and ITV. However, the sum will probably be less than that because there will be a wish to buy films to recruit orders. Those films will be expensive and the financial allocation for domestic production will be extremely small.

It is not possible to support a viable British television production industry by means of a few quick pop promotions, a few studio quizzes and sets with people talking to camera. It is necessary to have the entire panoply of production and the cable system will be unable financially to carry that burden. It will not be able to afford British production and it will not, therefore, be able to make a contribution to the British industry. It will be

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compelled to buy surplus American production, and the American industry will be in a good position to supply Britain because it will have amortised its costs on the American market, which is extremely profitable, and anything else will be pure cream. The extra market will be a pure bonus. That will be the consequence unless we have a British quota, which I think is desired by both sides of the House.

We must have a viable television production industry. If there is to be an audience for cable television, the audiences of the existing institutions will decrease and they will have less money available for production. There will be an adverse effect on television production and the cable system will be unable to compensate for that because it will not have the money to finance production, or even to buy surplus production, on the scale that is necessary to compensate for the decline of the institutions.

We are justly proud of our television industry, which has won a series of international awards at Montreux and in the Prix Italia competition. ITV alone has won eight out of 10 awards in the Prix Italia over the past seven years. The industry's net earnings from overseas transactions were £81 million in 1980 and £78 million in 1982. The industry is an essential part of our national culture and it will be threatened by the cheap-jack operation that is almost certain to develop.

What guarantees can be given to the industry? If the companies are driven remorselessly by financial considerations down market into imported products that are surplus to the production of the American market, what support will the Government provide to the British production industry to maintain its viability? If it is not a competitor to the American industry it will be taken over, for that is the logic of the Government's free market economics. There is the danger that our market will be driven out because the American market is so much larger as a result of having a much larger home market to which it can appeal.

What calculations have been made of the likely advertising revenues for cable television? A huge burden is being placed on the back of advertising. If we are to have a national commercial radio network in addition to the local commercial radio network that provides essentially the same fare, where is the advertising to come from? The essence of commercial radio must be pop music. I know that that is so as I am a failed disc jockey; I played brass-band records on my programme and the audience plummeted. Commercial radio means commercial music and it will duplicate much of that which is provided by the local commercial radio network. If, in addition, we have direct broadcasting by satellite, which will be advertising based, will the advertising budget be able to support the burdens that are placed upon it? What projections have been made for advertising revenue and expenditure over the next few years?

The future of the advertising base is linked to the future of the British economy, and my predictions for the economy are not particularly gloomy. If we are to maintain a British domestic manufacturing base, advertising will be cut slightly for the biggest advertisers are the importers who are competing for the domestic market. It is important for the Government to state the financial basis of their calculations of advertising revenue.

It is a matter of regret that the same attitude is being taken to impartiality and politics. Apparently that attitude will permeate cable television as it has permeated the existing institutions. My personal view is that the existing institutions have been castrated by the requirement of impartiality. To explain is to take a point of view, and it is far easier for the existing channels to present two Members arguing with each other—and, incidentally, completely confusing the public—than to provide an explanation or a committed viewpoint.

One effect of pluralism should be to allow a diversity of viewpoints. I am not suggesting that people should be allowed, as they are in the United States, to buy time during which they can put over their points of view. To allow that is to hand power to the large financial battalions. However, it is important that we have a greater diversity of viewpoints and not merely the access television which has been offered in mere deference to politicians. There should be a genuine openness to different viewpoints on cable television, especially access to Members to their constituents. This would be a prime use of interactive television, which has already been used effectively in the United States. Some of the clippings from the *New York Times* reveal how American politicians have used that form of television to talk to their constituents. It provides a constituency surgery of the air. Why should we not be able to have that form of television in this country as a means of communication with our constituents who return us?

The way in which the arrangements for direct broadcasting by satellite have been promulgated has produced a whiff of scandal. It was clear that the BBC did not want to take on the financial obligation. To save their project, the Government lowered ITV in. The carrot was the prospect that ITV's contracts would be renewed automatically by a compliant IBA. We have already gone over that argument. It is clear that private interests are to be allowed in for 25 per cent. and the BBC will not have the two channels it was promised at the beginning. The system will be operated by a consortium, of which the BBC is a part.

The BBC is being asked to provide the financial base for a commercial consortium and is not being given the two channels that would allow it to compete effectively. A consortium will operate all the available channels. That is an undesirable arrangement and a financial imposition on the BBC, which will not be permitted to raise money from its licence fee. The BBC will be forced to raise money on the market to provide financial backing for commercial interests. That is the final outcome of the long process of closed-door negotiations.

The measure is welcome in proposing the advent of cable television and a greater diversity, but it is unsatisfactory and should be reconsidered until the Government clarify their thinking on the financial basis of cable television. We need big thinking. Small men are thinking puny short-sighted market-oriented thoughts in a system that demands intervention and leadership by the Government so that the matter is not handed over to vested interests. We want what is right, and this legislation is not that.

8.41 pm

Mr. Hugh Dykes (Harrow, East): The hon. Member for Great Grimsby (Mr. Mitchell) gave us the benefit of his wisdom and advice for almost 35 minutes. It is a

reflection of our quaint habits in this mother of Parliaments that, because of an over-enthusiastic floor manager rampaging around the Benches at the beginning of the debate, exhorting all hon. Members to speak for 25 or 30 minutes, each hon. Member has spoken for far too long, and now there is insufficient time left for speeches before the Minister's reply. Perhaps that is the normal habit and tradition of this place.

I partly forgive the hon. Member for Great Grimsby, because he knows something about this subject. Other hon. Members from both sides of the House also knew something about it. The hallmark of their contributions of varying qualities and content has been their knowledge about television. But by definition no one knows yet about cable television in Britain; we know a little about the experiences in other countries. That should have been revealed more in the tenor of the Opposition's remarks.

I congratulate the Government on the way that they have prepared the ground for a difficult exercise. I, like many other hon. Members, am seriously disappointed that the Opposition, who were caught between a confusion of attitudes and a lack of knowledge on how to respond, acted in the traditional way. They repeated their old and now very tired and exhausted arguments about the early days of commercial television. The remarks of Opposition Members, perhaps not so much those of the hon. Member for Great Grimsby, were typical of the general debates in broadcasting in the old days when ITV began. The scene is totally different this time. This industry is completely new, except that it comes through a television set. Because it is so difficult to get the new system off the ground, the Government must consider the framework of the Bill. The legislation must strike the right balance between serious social, moral and organisational controls and the need to get this exclusively private industry off the ground properly. That is the priority for the House on Second Reading and in Committee.

I, like other hon. Members, am worried about a number of clauses, but time does not allow me to go into them in detail. I am anxious about the provisions of clause 4 stipulating 12 years for a licence period. A longer period might be a good idea. I hope that that point will be considered.

The new authority should be modest in its requirements on licence fees, or another too onerous condition will be applied in terms of those fees. The other terms and conditions of licences should be reasonably flexible. Clause 14 is also too restrictive. I, like other hon. Members, fear the excessive role of the IBA, rather than the other way round. I am concerned that pay-per-view on sporting programmes should mean what it says and not carry an unduly onerous restriction, as now provided in clause 14.

I am disappointed that this exercise is getting off the ground more slowly than we expected at the end of 1983. One Opposition Member said that the Government were going too fast, but I do not believe that. From the time of the Hunt report and the White Paper, there was a notable celerity in the Government's response. The Home Office moved quickly to get the industry off the ground. We have noted with nervousness that it is harder to get the industry launched than was anticipated.

I agree with the statements of the hon. Member for Great Grimsby about the confusion caused by the Treasury action a week after the Inland Revenue Service finally decided that ducting and so on could be a capital allowable item, although the IRS had previously given an ominous hint that such items would not be allowable. The capital allowance is now to be abolished. Not only did the Treasury, the Home Office and the Department of Trade and Industry swirl around one another, to some extent, causing additional confusion but the 11 interim franchises, many of which are now nervous because the talks have lasted longer than expected, are worried about the unnecessary delay. Every assistance, short of actual help, literally must be given by the Government to get the interim exercise off the ground in round one and later in the autumn in round two.

I am disappointed that it has taken so long for the Cable Authority to be established and for the chairman and the rest of his team to be appointed. It is a pity that my right hon. and learned Friend the Home Secretary did not put more flesh on the scheme in his opening remarks, but perhaps my hon. Friend the Minister will do so when replying.

This is a difficult exercise. Interim franchises and others thinking of applying for licences in later rounds fear that the rate of return will be so far removed as to make the exercise not worthwhile. Various feasibility studies are being conducted in private industry. I point out that I have no direct interest in this matter. I am a shareholder in a number of large companies that are also probably involved in cable television, but that is a rather remote connection. Many doubts have arised about those who were originally thought to be enthusiastic activists in the industry—small, medium and large companies — about the feasibility of the exercise. Many problems will arise also from DBS. I am glad that a Government framework in DBS is at least beginning to be established. We must encourage the exercise to a greater extent, and the Opposition should recognise that fact.

This is not a state exercise with state money, but a private exercise. Of course, standards must be maintained. It is easier to frame legislation and pass it in Committee than to get the industry started. I was especially disappointed with the curmudgeonly speech of the right hon. Member for Manchester, Gorton (Mr. Kaufman). At the weekend, in an article in a Sunday newspaper, the person who wrote the biographical notes said that the right hon. Gentleman was mercilessly teased at school. It is understandable that that was so, when one notes his remarks in a serious debate about starting an extremely difficult industry.

I hope that the Minister will encourage us with the belief that the cable television industry will get going and will incorporate the best traditions of the high standards of British television. This country is fortunate in its television services in that a type of historical accident has come together in a positive way to produce not only high standards but a good, semi-state framework. The Government need to take the Bill to Committee to start the industry as soon as possible. I hope that that will be the spirit of the end of the Second Reading debate.

8.48 pm

Mr. Clifford Forsythe (Antrim, South): I am not an expert on this subject, but I am someone of equal importance because I am a potential customer of cable television. I welcome the Bill generally. It will provide greater choice. We will have many more programmes on more channels. I imagine that we will be able to watch the

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Irish cup final and other events with a local character as well as those national events that are shown on national television.

Cable television will show different entertainments and offer other related services such as banking and business computing. There will be benefits for the handicapped, those who are housebound, and the elderly if shopping or home security is included in the related services. Medical services could be summoned into the home, and the system could be of use to doctors and other members of the medical profession when dealing with people who are tied to their homes.

While I generally support the idea of cable television, like many other hon. Members I have reservations about the Bill. One takes such a view about any new system. It takes time to have it as one would like it.

What powers and functions will the chairman, the vice-chairman and members of the Cable Authority have?

Northern Ireland is an outlying part of the United Kingdom, and I have reservations about how the system will operate there. If there is no tight control of special events, people who do not have cable television may lose out if such programmes are shown only on cable television. Will cable be given equal rights in respect of special events? Will it be allowed to show all the special events in the same way as the BBC or ITV?

One must consider the programme standards on cable television. There could be different standards on different channels. It is essential that the safeguards in the Bill should be strong enough to prevent programmes similar to video nasties from being shown on the channels. The Cable Authority should have proper powers to ensure that.

It has been said that if we do not have an 85 per cent. quota for United Kingdom and EEC programmes we will have rubbish from other parts of the world. We already have rubbish shown on television. It does not necessarily follow, however, that all foreign programmes are rubbish. Some good programmes come from outside the United Kingdom.

Other hon. Members have asked whether the 12-year starting period is long enough to give new companies the opportunity to get into the system and get back a little profit. Companies are putting their own money into the operation; public money is not going into it. The point may have been mentioned at the beginning of the debate, and I may have missed it, but is the initial starting period before the company goes into the service included in the 12 years or is it in addition? I know that the new service will not be a public service, but we expect standards as high.

I am not sure about the make-up of the Cable Authority.

Will Northern Ireland have some input? Will there be representatives from Northern Ireland on the authority? How will our interests be safeguarded?

I support the "have to carry" clause. I agree that scheduled programmes should be included in the broadcasts.

The star system will probably be used in the Belfast area. We hope that that will create jobs. It should be an incentive to job creation.

I hope that the outlying areas will not lose out, and that cable will encourage local talent in drama, sport and other entertainment. I look forward to the introduction of cable television.

Will the licence fees to be charged by the Cable Authority be different in different areas or will there be an overall charge for all parts of the United Kingdom?

I welcome the idea of cable television and the fact that, as I understand, all the components to be used in Belfast and other parts of Northern Ireland will be British made.

8.56 pm

Mr. Robert Key (Salisbury): I made my maiden speech last June on the subject of cable television. I am delighted to report that there are far more hon. Members in the House tonight than there were then. There are still perhaps not as many as there should be when such an important subject is being discussed. I said then that cable operators

"should do more than cream profits from limited services in densely populated areas. They should assume wider responsibilities in developing all the opportunities offered by interactive systems".—[*Official Report*, 30 June 1983; Vol. 44, c. 743.]

That is even truer today than it was then.

Events have moved fast since last June. They have moved so fast that I must now declare an interest to the House as a modest shareholder in Salisbury Cable vision Limited, a company born out of hope more than a large bank balance.

It is symptomatic of the way that matters have moved that many people are interested in this development. It is a new industry, and my hon. Friend the Member for Harrow, East (Mr. Dykes) said. Although my attention during the past year has given primarily to how cable might affect my constituency, a number of hon. Members have tried to assess the impact of cable television on rural communities. I am not convinced that it will touch only densely populated areas. It may take us longer, but it has not so far been popular to consider other factors in the debate. It has been said that a population of less than about 100,000 is not enough to support a cable system. I am not sure that that is true, although it is undoubtedly true that existing IBA companies have gone to great lengths to persuade people that it is not true. It has not persuaded all of us.

A large market will be needed to attract advertising. It is also true that some of the existing IBA companies have much inflexibility in, say, their editorial areas, which is a great menace to their future. They have much to be worried about from interactive services on cable.

The interactive services will be the most important feature of cable television development. Entertainment will be available but, although it will be an important aspect, let us not under-estimate the commercial and industrial uses of interactive systems. Many specialist groups will be catered for. They have been merely touched on by some hon. Members. After sitting on the Benches for about five hours and listening to other speeches, hon. Members might have thought that there was nothing left to say and that it would be amazing if something new were discovered. Therefore, I hope to amaze, although I may not succeed after such a long time.

Because the traditional terrestrial television and radio services, satellite and subscription television, can provide other specialised subject channels for news, education, religion and health and the specialist audience channels for ethnic groups that were mentioned by the right hon. Member for Manchester, Gorton (Mr. Kaufman)—in one of the more realistic passages of his otherwise dreamy

speech. Specialised audiences have been predicted for different age groups, for those with impaired hearing and other groups, including many channels for local information. A whole range of other services ranging from fire and burglar alarms to meter reading and opinion polling can be foreseen.

Business-led interactive services will be the key to the success of the project. Household consumers will be a priority audience and the traditionally high standards will be expected of BBC and IBA programmes. Much worry has been expressed about imported United States trash programmes, with arguments about the dangers of down-market television. But we may be able to lead the world as manufacturers of specialist programmes for cable television, which we are uniquely able to do with our wealth of talent in television production and direction, as well as acting.

Some of the specialist services that have been under-estimated so far are, for example, farming channels, which were mentioned briefly in the debate. These days, farming is a hard-headed business operation. It is not the romantic, straw-sucking and gatepost-leaning hobby that it is often portrayed as.

Security channels could be used in county towns and other areas to safeguard factories, farms and city centres, and to give protection against vandalism and mugging. There is great potential for estate agents, who are already conducting experiments in this area. Shopping has been mentioned. Radio and television programme guides may presage the end of the *Radio Times* and the *TV Times*.

The systems might be developed for special, remote areas such as military camps. Those areas could well be served better by cable television than by any other system. My hon. Friend the Member for Cornwall, North (Mr. Neale) said that some of the remote rural areas might be fairly high on the list of priorities for service by cable systems, because they would be the best, and possibly the only, way in which those areas would receive television.

I should like to mention something that has not been discussed so far: a possible new life for our provincial theatre and arts. They have a great future in cable television. Perhaps the channels will be able to produce theatrical performances. There may be greater potential for the full-time use of their studio facilities and production facilities, using the technology that is increasingly found in the provincial theatres.

We have the technology to provide cable systems. Business and industry will undoubtedly use them and will be prepared to pay for the services. As any example, many cable television companies have proliferated, often with local and national backing. I have not discovered how many there are, but they are many.

The consuming public also wants cable television. The hon. Member for Great Grimsby (Mr. Mitchell) referred to that aspect and quoted the researches of the Consumers Association. It has shown that video owners are most attracted to cable television. They are also most prepared to pay for it. The hon. Gentleman might have pointed out that the Consumers Association has shown beyond doubt that by allowing cable television to compete with and attract audiences from existing channels, the quality of public service television should remain protected. That is because the new channels will be available only to a minority and because the present service is held in high regard by most viewers.

The question of standards is paramount. I have seen little evidence that there will be a drop in standards, but it will undoubtedly be a high-risk industry. It will flourish only if the Government adopt a regulatory approach quite different from that for traditional public service broadcasting. No one is suggesting a free-for-all, least of all some pot of gold. There is no pot of gold in cable television, and if hon. Members do not know that they have not paid attention to the developments of the past year. There is certainly no licence to print money in cable television.

It wil take all the inventiveness of the market place to breathe life into this privately financed, market-led industry. As my hon. Friend the Member for Harrow, East (Mr. Dykes) has said, it is an entirely private industry. The Government must therefore be very careful not to stifle entrepreneurial courage at birth. I was a little upset to hear that the BBC is to have 50 per cent. of DBS services. I would have preferred one third each in this particular form of consortium.

The Government can be helpful. The changes in capital allowances have undoubtedly delayed the profitability of the companies involved. I support the idea that initial licence period should be extended to 15 years. Financial incentives are important and necessary. After all, the Government moved the goal posts after the first whistle—as we have seen in the Budget—by their action on capital allowances, after many of us had been trying very hard to get some movement on that front.

Consideration should perhaps be given to interim or installation licences to cover the transmission of test programmes. As it is a completely new industry, there will be technical problems and it will take many weeks or even months for cable companies to get around to providing a service that is fully operative for the whole of their franchise areas. There will inevitably be a long introductory period, and that should not be counted at the same rate as the full provision of services.

It is most important that licence fees should be announced as early as possible. That is crucial for all budgeting, and must be done if cable companies are to put in realistic applications in future. It is also important that licence fees should not be a burden, or another form of hidden tax on the profitable companies. I am concerned that, for example, the authority might use the licences as a means of subsidising the less profitable areas. If the market will not bear a high licence fee in the first place for a given area, a high licence fee should not be sought in the first place. There should not be any attempt to subsidise services around the nation.

In seeking to control cable licence holders, I beg the Government not to kill the goose that lays the golden egg. Twenty years ago it was said that local radio would kill the local and provincial press, but it did not do so. The newspaper industry is resilient and inventive, and has contributed much to local radio. I am concerned about clause 8 in that respect, because there is an even more natural affinity between the local press and cable television. I think that some of those Opposition Members who belong to the NUJ have pointed out that journalists are concerned that a screened information service and, perhaps more importantly, a news service that uses local reporters based on local newspapers, may lead to the end of local newspapers. However, it need not do so.

It is natural, and common sense, that local newspapers should provide a news service for potential cable television

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areas. Therefore, I accept that, although cable television has a unique potential for monopoly—I agree that it would be undesirable for a local newspaper to hold a monopoly licence in its own area—it is common sense, and professionally sound commercial practice, for newspapers and publishers to play their proper role in the development of a cable network — for instance, as minority shareholders in local companies. I urge the Government to clarify their thinking as soon as possible, so that newspapers and publishing houses are not squeezed out of their rightful place in the natural development of the industry.

I welcome the Government's announcement of a national independent radio network, and urge them first to complete the gaps in the existing local radio systems. There are large gaps, and my constituency is one of them. The Government should consider all possible means of increasing the funding of local radio—for instance, by allowing private finance for the establishment of transmitters.

Many technical and financial considerations have been and will be made, but it is more appropriate to do that in Committee. Bearing in mind the technological changes in DBS services and cable technology, and the shifting sands of public opinion and of opinion in the industry since the Government introduced the White Paper, I congratulate the Government on their resolve to bring in the Bill, and I beg the House to support it.

9.11 pm

Mr. John Golding (Newcastle-under-Lyme): I say without regret or malice that since I last spoke about cable television I have not been offered chairmanships or directorships, nor do I have a new interest to declare—only my old interest of the Post Office Engineering Union.

For many years I have stressed the need for an integrated telecommunications system. The last time that my right hon. Friend the Member for Manchester, Gorton (Mr. Kaufman) and I sat together on a Bill—it was about commercial radio—it took five months to pass through Committee. My hon. Friend the Member for Great Grimsby (Mr. Mitchell) is to be the Opposition Whip in Committee and, having heard him speak tonight, I think that he will need five months for himself alone. The Government are late in introducing the Bill and as my hon. Friend will serve in Committee, I hope that the Committee on Selection will not also make me serve on it.

I regret that the Government have chosen not to split the running of the physical system from the programmes. They are wrong. The physical system should be run separately and integrated into telecommunications. It should then be controlled by one body, and whether privatised or non-privatised—preferably non-privatised—it would be better for the cable system to be given to British Telecom, or, at least, British Telecom should be involved in each consortium. The Government's separation of the transmission of information does not make sense.

Under the system Oftel will grant licences. It appears that it will be forced to grant licences to operators who have received a cable authority operating licence, unless there are good reasons for not doing so.

I agree with the hon. Member for Salisbury (Mr. Key) that entertainment may prove of negligible value to cable in Britain. We shall come to see that the sort of technological system provided is more important than the entrepreneurs providing the entertainment programmes.

I do not pretend to have the high cultural standards of my right hon. and hon. Friends on the Front Bench. I am a philistine and enjoy watching television rubbish, but I shall not make a big issue of that. The public will not care which group of entrepreneurs provides which rubbish. However, it will be important to know about the technical systems, since interaction and, to a large extent, the development of data transmission and telecommunications will depend upon them. Jobs and prosperity will depend more on technology than on quality control. It is regrettable that the technical systems have been relegated to such a minor place in the Government's thinking.

It is clear from having listened for years to Ministers from the Department of Trade and Industry about the privatisation of BT and having read the Bill that the Government have not formulated a cohesive telecommunications policy. At present it is fragmented. The Government are wrong to try to hurry cabling under the pretence that it will provide jobs. They should have waited for two or three years and then they could have relied on the most modern technology. They have been wrong not to insist on the most modern technology, but they have at least acknowledged our argument by modifying their original position and by ensuring that the majority of franchises have gone to those who will provide the most up-to-date systems.

I agree with the hon. Member for Salisbury—I shall ruin the hon. Gentleman's career if I say that he made my speech for me—about the importance of rural areas. The Government are in danger in this matter, as in telecommunications generally, of creating two nations. They are not yet conscious of the importance of national provision.

The Bill also offers the possibility of alternative local telephone systems, although the Government have ruled out further competition to BT. It is obvious that the Department's policy on cable is designed to prop up Mercury by pressing cable operators to carry its business. It will enable Mercury to cream off business in Birmingham, London, Manchester, Leeds and Liverpool. That is entirely undesirable. Neither the Home Office nor the Department of Trade and Industry should be concerned with short-term commercial advantages in cable or short-term advantages to Mercury. They should work out what is best in the long-term interests of Britain and British manufacturing industry. There is no doubt, because of the rush to cable, that British companies will suffer at the hands of the Dutch.

It is now 9.18 pm and I know that my right hon. Friend the Member for Birmingham, Small Heath (Mr. Howell) is anxious to address the House on the high standards of programme content required for his constituency, so I merely ask the House to note that the technological basis of the Government's decision is faulty.

9.19 pm

Mr. Denis Howell (Birmingham, Small Heath): I am grateful to my hon. Friend the Member for Newcastle-under-Lyme (Mr. Golding) for not continuing beyond 9.19, which would have deprived me of the opportunity to talk about small businesse.

I start with a general welcome for the debate and for cable television itself. As I shall be critical of some aspects

of Government policy, such as implementation and mechanics, and about the statement that the Home Secretary has made, it is important to say that there are good reasons for the Opposition supporting cable television. The technical advance envisaged in cable television—about which my hon. Friend has just been talking—the jobs, the services, the new opportunities that we hope will come about as a result of the interaction and the welcome new cable television services that can do much to the advantage of musical programmes and programmes for schools, sport, arts and local affairs—all these things are positive, to be welcomed and are an advance.

I am sorry that the Home Secretary decided to make a rather sensational and deplorable statement at the beginning of the debate.

Mr. Brittan: The right hon. Gentleman should read the *Financial Times*.

Mr. Howell: I see that the Home Secretary is now falling back on the excuse that his speech was written about in advance in the *Financial Times*. That is a remarkable statement. Leaks from Cabinet Ministers are now officially stated by the Home Secretary to be all right. The right hon. and learned Gentleman is right—I do not often read the *Financial Times*, but I shall be quoting from it.

The Home Secretary's announcement today has transformed the nature of the debate. While I accept that he was legitimately giving us information, as the Minister said in an intervention, about part II, perhaps the Home Secretary should have thought on reflection that it would have been better to give us advance notice of that part of his statement—probably last week. However, as the other place is still part of our parliamentary procedures, and as the Bill has gone through its stages there, I do not know what he thinks their Lordships will think about having debated the Bill without the benefit of any of the information that the Home Secretary has now given us about the changes in the rules of the game in the middle of the match. He has transformed the debate, and I should have thought that was more discourteous to the other place than to this place.

Mr. Brittan: Is the right hon. Gentleman now supporting the House of Lords?

Mr. Howell: I am always anxious to help the Government in their protection of the second Chamber. As we have one, it is as well that we take account of the courtesies of Parliament for it.

The important thing is that the Home Secretary, by introducing a new power for the IBA, to enable it not to readvertise in 1989 for regional television contracts, is giving it a licence to reprint money, to change the old phrase. He is now saying that any television company, if it takes a stake in the new arrangements for satellite television, will automatically get itself an extension of contract.

Mr. Brittan: No.

Mr. Howell: I am afraid that that is what the Home Secretary is saying. It is inconceivable that the IBA, faced in 1989 with a programme company that has invested substantially in the new satellite arrangements, would not take advantage of the powers that the Home Secretary has told us that he is prepared to give to it. If it does not take advantage of that power, what is the point of the Home Secretary announcing that power today? Perhaps the Minister can tell us, if the IBA does not have to readvertise for programme contractors in 1989, what will be the period before the contract is readvertised. Is it to be the full period, for three years or four years? We are entitled to know.

Similarly, I have grave concerns about the financial arrangements that the Home Secretary announced about the cable authority. If I got it right, he said that he is allowing it to borrow £2 million working capital. Presumably, if the BBC is not to finance the operation out of licences it will have to borrow money. If there is a flop which cannot be charged againt licence holders, that can only mean one thing — dramatic cutbacks and the reduction of standards of BBC programmes.

I welcome the Home Secretary's acceptance of points that have been put to him elsewhere that he should use the existing television complaints machinery. We are glad that the Home Secretary has reconsidered the matter and proposes to put it right.

There are three areas of profound concern about the arrangements that are evolving. First, the Government are botching a great technical opportunity for Britain. I need not go into that in great detail because my hon. Friend the Member for Newcastle-under-Lyme (Mr. Golding) has just dealt with it. It is interesting to learn from the *Financial Times* of 4 May that the French Government have taken a completely different and much more realistic approach. They are going to insist on a system of optical fibres which is what we should be doing because it is there that the technological advance is to be found. They are proposing to connect up 200,000 homes a year with optical fibre systems going up to 300,000 or 400,000. In the Government's haste to get the capital ahead of the programmes and the subscribers, they have gone for a second-class system. They have done it in a way which is much to the disadvantage of British Telecom which ought to be the agency responsible for the establishment of the cables.

Our second objection is to the financial arrangements which now apply. The financial arrangements now on offer for cable television are a shambles. People in cable television, some of whom I have spoken to this weekend, particularly in the midlands, say that it is a shambles. They say that they do not know where they stand and that they cannot possibly recoup their money in the time scale available to them. On top of that, along comes the Chancellor of the Exchequer and produces a disastrous proposal for capital allowances which means that they cannot make any profit on the deal for 10 or 12 years or even longer. Those are the people who have already been chosen by the Home Office to act as licence holders. I ask the Home Office, as a matter of urgency, to look into all the financial arrangements. Those of us who want cable to succeed do not want it to be bogged down by the financial restraints which are now much in evidence.

Cable will not be the bonanza which many think. There are stories of disaster now being told in the United States and Canada. Even CBS with a 5 million viewing audience has lost £35 million and many companies have closed down. In Canada two out of the six cable television companies have closed down. That is important to note. There are various stages—the building up stage and the running in stage—before the programme companies get under way. *Satellite TV News*, the trade paper for the

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industry, said in its May edition the very things that hon. Members on both sides of the House have been saying about the great financial difficulties which everybody now faces.

The next question concerns the dilemma of quality and standards. We have not been told by the Government how they intend to protect the quality and standards of the existing programmes made by the BBC and the IBA. The hon. Member for Cambridgeshire, North-East (Mr. Freud) said that, if we are going down market, as we inevitably will with cable television, if we are to have rubbish, at least let us watch British rubbish. I have a great deal of sympathy with that sentiment from the point of view of the creative arts, the musical world and sport, as well as from the point of view of viewers.

The Bill states that the Cable Authority must ensure that there is a proper proportion of British material. What on earth is a proper proportion? This must be defined, as it will be necessary to refer back to the clause. This criticism applies to a great deal of the Bill. Clause 10 says that standards of decency must be maintained. What is a standard of decency? There are about 40 hon. Members in the House, and every hon. Member will have a different idea of what this is. Indeed, one knows of the concern that there is on this question from what happened on Channel 4 when the company was proposing to show sexual intercourse under the disguise of education. Every hon. Member who has served on the Video Recordings Bill, on which the Home Secretary, I and other hon. Members have joined to protect standards in the country, will have some concern on this matter. Clause 11 contains an attempt to rectify the omission. I hope that the clause will be realistically considered.

It is most important to say, as the IBA and the BBC have said, that 86 per cent. of the total content should be British manufactured. I cannot understand why the Government are not insisting upon this, since the figure of 86 per cent. was arrived at as a result of the long working experience of the IBA, and was worked out in association with the unions and other interested people. I notice that people like John Gielgud, Michael Dennison and many other actors have been saying the same thing. It should be a matter of concern to us all.

I am pleased to note that in parts of the Bill powers are being taken to ensure that exclusivity is not bought by cable television, particularly with respect to sport. That is welcomed by me, and by the sporting organisations. In view of the fact that cable television will go to the lush urban areas, and that large parts of the country will not have it for a long time, it will be indefensible to allow events like the Olympic Games, the Cup Final, the Grand National, the Derby and similar major sporting events to be bought exclusively, and then projected to only one or two areas of the country.

I deal last with the question of impartiality which is covered in clause 10, together with the question of good taste and decency. Clause 10(1)*(a)* deals with good taste and decency, and will require a constant monitoring operation by somebody. That will be an expensive operation for the new authority to undertake. I hope that we can be assured that the resources will be available to the authority.

On the question of the impartiality of news, I was interested that the hon. Member for Gravesham (Mr. Brinton) welcomed that but went on to say that he did not approve of it with regard to current affairs programmes. Current affairs programmes are a cause for some concern. Our experience is that the news is generally fair but that current affairs programmes depend very much on the editor of the programme, and on the sort of interviewers. We have all observed the Prime Minister being interviewed for 40 minutes, and being asked not one single reasonably hostile question in the course of the interview. I do not think that the Prime Minister should be interviewed by somebody whom she has knighted, but that is a personal prejudice. I do not think that journalists should accept honours from Government until they retire. Following such a principle might improve the health of all our newspapers and television companies.

I hope that the Minister can confirm that the impartiality of cable television will not apply only to the news, but to current affairs. That should be written into the Bill.

The Bill provides a great opportunity. Most important, it will extend choice for the people. Apart from the technological innovations, the news services, the new jobs and the new technology, the most important aspect of the Bill is that the British people will have greater choice in their television programmes.

Subject to proper safeguards the Bill deserves a welcome. I assure the Minister that in Committee we shall approach the Bill in a constructive spirit and hope to make improvements in it.

9.35 pm

The Minister of State, Home Office (Mr. Douglas Hurd): I am glad to hear that the right hon. Member for Birmingham, Small Heath (Mr. Howell) supports the Bill in principle. We have had an interesting debate, but we have only just begun to scratch the surface of the subject, in the House and outside. I agree with the thrust of the excellent speech of my hon. Friend the Member for Thanet, North (Mr. Gale) who tried to jerk the debate out of the rut of ordinary broadcasting debates. He reminded us of some of the unknown possibilities with which we are only just beginning to deal.

The right hon. Member for Manchester, Gorton (Mr. Kaufman) was in a different mood. He was obviously itching to take his place on the Standing Committee. He advertised his celebrated service of correcting misprints and we look forward to his contribution in Committee. The speech of the right hon. Member for Small Heath was similar. He was longing to set up a nationwide, nationalised cable enterprise. Both right hon. gentlemen described in mouth-watering terms the inevitable losses which such an enterprise would meet. It is characteristic of the Opposition, even to two relatively robust Members of it, that when they see a loss they want to make absolutely sure that the taxpayer will suffer it.

We believe that cable can be profitable. Others obviously believe that, because otherwise we should not have received 37 applications for the pilot projects. The decision about whether it is profitable should not rest with the House, with politicians or with Governments. It must be taken by the cable operators and the customers. The risk should fall upon private enterprise.

The right hon. Member for Small Heath talked about chaos in our approach. There was a certain amiable chaos in his speech, short though it was. He started by saying that we were giving a licence to our friends to reprint money

and then he described conditions so hard and hostile that they would never be able to make it. I am not clear whether the right hon. Gentleman thinks that we are creating a honeypot or a mousetrap for applicants. I think we should be told.

Mr. Denis Howell: I was saying that by the Home Secretary's announcement the existing ITA programme contractors are given the right, if they buy into the new satellites, of automatic extension. That is a totally different consideration from whether satellite and cable television itself will pay. In some circumstances it will pay the companies to buy their way in, even if the systems fail, to get over the problem of having to reapply for their contracts.

Mr. Hurd: We shall be able to queue up for *Hansard* in the morning and interpret the right hon. Gentleman's argument.

I shall not be able to cover all the points made by hon. Members, but I am sure that we shall have an opportunity to go into them in detail in Committee. I shall deal with the main points that were made in the debate.

One main argument was about British and other European material. The right hon. Member for Gorton began by saying that the provision should be the same for cable as for broadcasting. My hon. Friend the Member for Thanet, North had to say twice, and I had to say once, that that is exactly what is in the Bill. The formulation in clause 10(1)*(d)*, which provides that the Cable Authority is under a duty to do all that it can to secure that cable programmes include proper proportions of British and EEC material, is taken direct from section 4(1)*(c)* of the Broadcasting Act, which imposes a similar duty on the IBA. If the House approves the Bill, the statutory basis will be the same for cable as it is for broadcasting. We want to see a substantial and growing proportion of British and European material on cable.

The question for the House—which the Opposition have not yet addressed—is whether it is sensible to lay down in the Bill a precise proportion, even though we are at the beginning of a new enterprise, whose pace and exact course we all agree it is impossible to predict. If we put into the Bill a precise proportion, we should impose on cable a precision that the House has never imposed on broadcasting. On the whole, that would be wrong.

Therefore, we have included three specific obligations on the Cable Authority. First, at the application stage, under clause 7(2)*(d)* it must consider the extent to which each applicant intends to use programme material from this country and elsewhere in the Community. Secondly, under clause 10(1)*(d)*, it must include conditions in each licence in pursuance of its duty to secure that a proper proportion of domestic material is included. Thirdly, under clause 22(3), it must report to the Home Secretary each year on how it has carried out its duty in that respect. That last obligation does not exist for ITV.

There was much discussion in another place whether the proper proportion requirement was sufficient. We are not persuaded by anything that has been said so far that it would be better to introduce into the Bill, into statute and into law a precise proportion at this stage of the cable experiment. It should be for the authority to decide whether to carry out the statutory duty that we propose by setting particular figures, whether for particular channels or across the totality of the service.

Mr. Corbett: The right hon. Gentleman has quoted from clause 10(1)*(d)* about proper proportions. Does he accept that that conflicts with the pledge given by the former Home Secretary about a rising proportion? The Bill makes no reference to a rising proportion and a duty to report about British originated material.

Mr. Hurd: I said that we wanted to see a considerable and growing proportion of British material——

Mr. Corbett: It is not in the Bill.

Mr. Hurd: If the hon. Gentleman wants to put a towel around his head and put that into statutory language, he would find it very difficult. My noble Friend Lord Whitelaw was not drafting a Bill—he would be the last person to pretend when he used those words that he was drafting a Bill. The policy is as he stated, and I have repeated it. I have explained the reasons why we believe that statutory provision is best left as it is in the Bill.

My hon. Friend the Member for Thanet, North was entirely right to stress the importance of the quality of the membership of Cable Authority. That touches on a point made by the hon. Member for Antrim, South (Mr. Forsythe) in his interesting speech. We do not want on the authority people who are there simply because they represent other people. It should not be that sort of body. We need to find persons of substance and experience in their own right.

The hon. Member for Cambridgeshire, North-East (Mr. Freud) made a foray against porn and violence. If he serves on the Committee we shall have the opportunity to study the provisions in some detail.

Clause 10(1)*(a)* gives the authority the same duty as the IBA as regards taste and decency. Clause 11(1) goes further than the White Paper in requiring the authority, like the IBA, to draw up a code on the portrayal of violence and programme standards generally. Clauses 25 and 26 amend the English, Scottish and Northern Irish law to make cable programmes subject to the criminal law of obscenity. Incitement to racial hatred by cable will also be an offence under clause 27.

These provisions taken together are a sufficient armoury. If hon. Members do not agree, we can argue that through. I would not like the House to have the impression from what the hon. Gentleman said that we are leaving a gate open for pornography or violence on cable, because that is not the case.

Mr. Freud: The point I made was that there should be no difference in standard simply because the message came by a different medium.

Mr. Hurd: We shall be able to examine our provisions against that test.

The hon. Member for Birmingham, Erdington (Mr. Corbett) was on to a good point on behalf of the Society of Authors about copyright protection. In Britain, the rights holder's position is safeguarded up to a point, because the services are intended for inclusion in cable services. But he was right to draw attention to other difficulties which can arise if the services are received and distributed abroad. We have discussed this with some of the copyright organisations and we are considering whether it may be sensible to amend the Bill further during its passage through the House. It is not easy and the problems of definition may be so difficult that the matter

[Mr. Hurd]

may have to wait for the current general review of copyright. If we can sort out the matter in the course of the progress of this measure, it would be sensible to do so.

My hon. Friends the Members for Wealden (Sir G. Johnson Smith), for Cornwall, North (Mr. Neale) and for Harrow, East (Mr. Dykes) made cogent speeches on a theme which my hon. Friend the Member for Wealden defined as the need for a benign financial climate, and I agree with that. He raised a number of specific points that he will not expect me to pursue in detail now. He was worried, as were others of my hon. Friends, about the authority's freedom under the Bill to vary licences. We believe that there must be some provision for licences to be varied after they have been issued. We are at the beginning of something new, to some extent unpredictable, and the authority would be lucky if it could foresee all eventualities from the beginning, particularly in the early years. However, variation need not only be in the direction of greater restriction. It could be the other way round. The authority's duty is to promote the development of cable, not to impose unnecessary obstacles in its path.

We acepted in another place that the authority's power to vary licences should not be entirely unfettered and we agreed in principle to two changes, one of which has already been made and the other of which I hope we can make in Committee. First, the Bill now provides that the authority cannot vary a licence without giving the licensee the opportunity to make representations about what is proposed.

Secondly—I do not know whether my hon. Friend the Member for Wealden had taken this on board; it may not have been public before now—we intend to bring forward an amendment which will prevent the authority from varying the length of a licence without the licensee's consent. It seems right that, if the authority is dissatisfied with an operator's performance, it should use the other sanctions available to it, including, in the last resort, revocation, rather than attempt to vary the length of the licence.

Mr. Corbett: Are there any more threepenny bits in the Christmas cake?

Mr. Hurd: I am trying to give the House full information about our intentions, and we should be given credit for that. Every time we say something new we are told either that we should not have said it or that we should have said it a long time ago.

Mr. Bermingham: On a point of order, Mr. Speaker. I shall not comment on a sedentary remark by the Home Secretary about spurious points of order, a comment to which I take exception. My point of order is extremely simple. This is a Second Reading debate. Surely the House should know at this stage of a Bill whether there are new matters which were not debated in another place but which have arisen from the discussions in another place and in respect of which the Government intend to alter the Bill, either now or in Committee. If it does not know, it cannot be properly asked to give a Second Reading to the Bill. We are entitled to know at this stage exactly what the Government have in mind in bringing the Bill before the House for its Second Reading.

Mr. Speaker: Order. I think that the Minister of State will answer for himself.

Mr. Hurd: The hon. Gentleman's comment would be apt if the debate had proceeded to this stage without the Government having said what their views were about DBS and the joint project. He would then have had the right to make the remarks which he included in his point of order. However, as my right hon. Friend the Home Secretary gave a careful account of the Government's proposals on DBS in his opening speech, the hon. Gentleman's comment is otiose.

Mr. Bermingham: *rose*——

Mr. Hurd: No, I shall not give way to the hon. Gentleman again.

I cannot hold out much hope to my hon. Friends of my right hon. Friend the Chancellor of the Exchequer changing his mind about capital allowances and treating cable television as a special case. The cable industry now has the assurance that, while the special allowances are being phased out over the next two years, all cable installation, including ducting, will qualify. That removes a previous uncertainty. Changes in the consortium relief rules will similarly benefit cable companies. For tax purposes consortia will now be able to number up to 20 members and include foreign participants.

My hon. Friend the Member for Thanet, North and other of my hon. Friends, including my hon. Friend the Member for Harrow, East, who is unable to be in his place at this moment, are concerned about the delay which they saw in licensing the pilot projects. When my right hon. Friend announced the results of the scheme in November he said that some specific points would be discussed with the 11 applicants before licences would be issued. The discussions are in general well advanced. They have been concluded satisfactorily with certain applicants but others are not yet in a position to put definite proposals to the Government because of changes, for example, in the supply of equipment. Nevertheless, all the applicants have been able to make progress with their plans in the meantime.

It was always clear that those applicants who thought it important that they should benefit from the powers of the telecommunications code would have to wait until the Telecommunications Act 1984 came into force and for the procedures that it provided to be operated. It is not within the Government's power to issue licences bestowing such powers until later in the year.

I discussed recently the present position with my right hon. Friend the Minister for Information Technology and representatives of the pilot projects and I expect the first interim licences to be issued shortly. A draft of the licence which the Home Office proposed to issue has already been sent to all the applicants. I am keen to proceed with this procedure as soon as possible.

Some surprise was expressed following my right hon. Friend's statement about independent national radio. It is over a year since the previous Home Secretary, Lord Whitelaw, announced that the Government had found the IBA's proposal for an independent national radio service an attractive one provided that satisfactory financial arrangements could be developed. So it is not surprising that today we are making proposals to enable the IBA to begin construction of a network of transmitters for such a service.

We cannot predict now what the service will be like. The IBA has not yet put proposals to us and the precise

arrangements for the service and its regulations are for the future, but it will be a national service. It is the only area of broadcasting in which there is at present no competition. If we follow the traditional pattern, the competition will be provided by one contractor. These are all matters for separate and subsequent legislation. At present we are concerned only with enabling the IBA to begin construction of the network of transmitters.

It is clear from the Opposition's comments that there is still a certain amount of misunderstanding about the DBS proposals. There have been two strands in the Government's thinking on them. There was the announcement in 1982 that the BBC would be able to go ahead with two DBS channels. That was followed by the undertaking that was given last year by my right hon. Friend that there would be provision for independent DBS. That undertaking is implemented in part II. Negotiations between those immediately concerned produced a possibility of agreement on a joint project on a basis slightly different from either of those I have sketched. As we are not providing public funds for the joint project, we have never been in a position to dictate the outcome of the negotiation.

The Government had to consider whether it was in the national interest for the negotiations for the joint project on DBS to collapse, with the possible disintegration of Unisat and the probability that there would be no British DBS this decade, or whether it was better to show a willingness to listen and to adapt our ideas. The Government took the second view, and my right hon. and learned Friend explained the consequent details of our policy.

There are four points I should like to make in repetition and illustration of that point. First, we have insisted all the time that no ITV company could be constrained in any way to enter the joint project. Secondly, we have emphasised throughout—this point is accepted—that there must be ample scope for others to join in—I refer not to the BBC or existing ITV companies, but to other companies which have something worth while to contribute.

Thirdly, we have retained the structure of terrestrial franchise in the 1980 Act. We agreed that in 1989 alone the obligation to re-advertise the terrestrial franchise should be suspended. During the debate we have been criticised for going too far in removing competition and, by my hon. Friend the Member for Wealden, for not going far enough in giving assurance to the ITV companies concerned. In the middle of that conflicting criticism, we may have got the balance about right. We have not gone for a rolling franchise. We have not gone, despite the frequent assertions of the hon. Member for Erdington, for an automatic extension of the franchise. We have not ruled out the possibility of newcomers coming in in 1989. Those matters will be left to the discretion of the IBA.

Fourthly, we propose to retain—this point has not been mentioned in the debate since my right hon. and learned Friend's speech—the provision in part II for an entirely independent DBS to follow. That was the correct decision, and we would have been much criticised, rightly, later if Britain had been held back because we had failed to take that decision and if other countries, especially Ireland, had proceeded on a different basis and we had received their programmes. On balance, after much thought, we decided that it would be sensible to provide the framework outlined by my right hon. and learned Friend.

The Bill covers one of the most lively and talented sectors of our economy and society. We have seen the talent in developing technology, whether of cable, satellite or transmission. We have seen the talent in creating programmes, as my hon. Friend the Member for Boothferry (Sir P. Bryan) illustrated, not just by the BBC or ITV, but in the independent sector growing up and clustering, to some extent, in London and Cardiff around the two fourth channels.

The success of our talent has put us into a process of rapid and unprecedented change.

It is not the Government's role to dictate how the talent should be used. The public, not the politicians, should choose. The public will decide which of the new opportunities they propose to take. The Government's job —I do not believe that the Opposition have yet grasped this point—is to provide a sensible framework within which those public choices can be made. We do not mean to regulate with a heavy hand.

The Bill illustrates our view that as choice multiplies, the need for regulation grows less. Detailed controls are necessary when one is dealing with a monopoly, as my hon. Friend the Member for Boothferry said, but such detailed controls are too burdensome when one is dealing with a choice of 20 or 30 channels. The purpose of the Bill is to encourage the rich talent which Britain possesses to enable the public to make their own choices, and to sustain the high and deserved reputation this country's broadcasting has achieved in the world.

Question put and agreed to.

Bill accordingly read a Second time and committed to a Standing Committee pursuant to Standing Order No. 42 (Committal of Bills).

Cable and Broadcasting Bill [Lords] [Money]

Queen's Recommendation having been signified—

Resolved,

That, for the purposes of any Act resulting from the Cable and Broadcasting Bill [*Lords*] ('the Act'), it is expedient to authorise—

(a) the payment out of money provided by Parliament of advances to the Cable Authority, subject to a limit of £2 million on the amount for the time being outstanding by way of principal in respect of such advances;

(b) any increase attributable to the provisions of the Act in the sums payable under any other Act out of money so provided or out of the Consolidated Fund.—*[Mr. Major.]*

WAYS AND MEANS

Cable and Broadcasting

Resolved,

That, for the purposes of any Act resulting from the Cable and Broadcasting Bill [*Lords*] ('the Act'), it is expedient to authorise—

(a) any increase in the sums payable into the Consolidated Fund under the Broadcasting Act 1981 which is attributable to provisions of the Act which—

(i) have effect for the purpose of facilitating, or making special provision in connection with, the provision by the Independent Broadcasting Authority, by means of the technique known as the direct broadcasting by satellite, of television broadcasting services additional to those already provided by them; or

(ii) extend the period during which television and local sound broadcasting services are to be provided by the Authority;

(b) any increase in the sums so payable under any other Act which is attributable to provisions of the Act;

(c) the payment into that Fund of any sums required to be so paid by or under the Act.—*[Mr. Major.]*

[Continued in column 821]

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file

bc David Pascall

BM.

10 DOWNING STREET

From the Private Secretary

8 May 1984

Dear Hugh,

DBS

The Prime Minister has seen the draft of the statement which the Home Secretary proposes to make for the Second Reading of the Cable and Broadcasting Bill and, subject to one point, is content with it. She wonders whether on page 8 there would be merit in spelling out a little more that alternative forms of satellite broadcasting are not precluded. This could be done by amending the final sentence of the middle paragraph as follows:

> "....other cable-borne services, transmission to cable heads using telecoms frequencies, and alternative systems of delivering ...."

It would, however, be important to ensure that this were not interpreted as Government endorsement of or commitment to such alternative systems. The aim would be to demonstrate that the scope of the monopoly was being kept to the minimum necessary.

I am copying this letter to Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office) and Alex Galloway(Chancellor of the Duchy of Lancaster's Office).

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Hugh Taylor, Esq.,
Home Office

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PRIME MINISTER

cc: Mr. Redwood

DBS

Mr. Brittan's statement embodies the various conditions agreed at your meeting. The only outstanding issue is whether it should be more explicit on page 8 about the other forms of satellite broadcasting which would compete with DBS. The aim would be to emphasise that competition is being kept as open as possible. I have marked a possible form of words on the text.

The Home Secretary may not want to go this far as it could be interpreted as a commitment to allow such systems, when there might be other reasons, e.g. allocation of radio frequencies, for turning down a particular proposal.

Subject to resolving this point, agree the statement?

AT

This has far strayed from the mark —

4 May 1984

From: THE PRIVATE SECRETARY

CC JR

HOME OFFICE
QUEEN ANNE'S GATE
LONDON SWIH 9AT

4 May 1984

Dear Andrew,

DBS

what?

As requested in your letter of 1 May to Hugh Taylor, I enclose a draft of that part of the Home Secretary's opening speech for the Second Reading of the Cable and Broadcasting Bill on Tuesday next, 8 May, which deals with DBS including the Joint Project.

On one point raised in your letter, the Home Secretary is satisfied that it would be neither acceptable nor practical for contract services in competition with the Joint Project to be advertised at such a time as to allow actual broadcasting to begin after three years of the Joint Project service. The draft attached reflects this conclusion.

Yours ever,

Christine.

MRS C J HEALD

Andrew Turnbull, Esq.

CABLE AND BROADCASTING BILL

HOME SECRETARY'S SECOND READING SPEECH

DRAFT PASSAGE ON DBS

I turn now to the subject of Direct Broadcasting by Satellite: DBS. Hon Members who follow this subject in detail will be aware of a good deal of speculation in recent weeks about a possible new approach which would assure the initial stage of DBS for this country. Part of my task today is to tell the House of that approach and the implications for the Bill. But first, a few words about the DBS provisions in Part II of the Bill, and the general policy background.

As Hon Members will recall, DBS is a means of transmitting television and sound signals from a single transmitter in space, direct into the home, where the signals are received with the aid of a small dish aerial and converter equipment. DBS signals can, and will, also be received at the head-ends of cable systems and distributed like other cable programmes. But cable is not necessary as a means of distribution - in contrast to the programme services which are now beginning to be transmitted by low-powered telecommunications satellite for distribution as part of the package of programme services provided by cable operators.

The United Kingdom, like each other European country, has been allotted by international agreeement five DBS channels. The Government's decision, announced in March 1982 by my predecessor, now Lord Whitelaw, was to allow and facilitate this opportunity to be taken, for technological and industrial as well as broadcasting reasons. Hence Lord Whitelaw indicated two years ago that the BBC would be authorised to go ahead with plans for

a 2-channel service, using a satellite system provided by the Unisat consortium. At the same time he looked forward to the participation of the independent sector in DBS, once a legislative and regulatory framework had been created.

That is what Part II of the Bill seeks to provide. It empowers the IBA to provide DBS services. The IBA will be the broadcasting authority and, wherever relevant, their powers and responsibilities under the Broadcasting Act will apply to DBS also. The IBA would provide DBS services, as it does terrestrial services, through contracts with programme companies, chosen through a franchising process. Each DBS franchise would last for 12 years, in recognition of the fact that the successful applicant would bear the full responsibility and liability for satellite provision. Services could be financed by subscription or advertising or both, and, as and when there was a sufficient level of profit, would be subject to levy. In terms of the IBA's finances, independent DBS will have to stand on its own feet. The rentals received from terrestrial television will not be allowed to subsidise the IBA's DBS operation unless exceptionally the Authority applied for my consent and I made a direction to that effect. Any such direction would have to be laid before Parliament.

The Government remains committed to the framework I have described, of permitting competing BBC and independent sector DBS services, for the longer term. We have, however, accepted the case that has been put forward that something different is needed for the initial stage of facilitating DBS. First, DBS is a high risk, high cost venture which would initially be a heavy burden for any single operator. Second, its viability will depend on the rate of build-up of its audience, who will have to incur appreciable expense to equip themselves to receive a service. Financial projections suggest that a service is not going to break even until it can

attract some two million subscribers, and that is going to take some years. There are real doubts whether there is room, from the outset, for two services competing for an audience. These uncertainties led the BBC to explore the opportunities for partnership with others, latterly and in particular with the IBA and ITCA, the association of ITV companies. While the Government was not the prime mover in these talks, we have stayed in close touch with them since we want to see an opportunity provided for a British DBS service to be established on a firm footing. We have seen our task as not to coerce anyone into a particular framework for DBS, but to listen to the arguments and be ready to play our part in creating the conditions in which a venture worthy of support can go forward.

Having reviewed the case put forward, the Government has concluded that the best hope of securing a good quality British DBS service in the late 1980s lies in a Joint Project which would bring together the talents and experience of those of the existing broadcasters who wish to participate, together with a significant proportion of outsiders. This will mean some additional legislative provision to create the necessary framework, and I shall be bringing forward in Committee detailed proposals for this purpose. Meanwhile the House, and those outside with an interest in the project, will wish me to indicate today its main features.

What is proposed is that the joint DBS Project will be provided by a joint company or consortium whose participation will be divided between the BBC and the independent sector. The BBC will have a half share of the project. The independent sector will be in two parts. One part - which I would expect to be at least a quarter of the total project - would consist of those ITV companies which wish to take part. I stress that there is to be absolutely no pressure or coercion. The companies must decide for themselves because it is their shareholders' money which will be at risk. The other part of the independent sector would consist of other companies or organisations that expressed a wish to take part on the terms stated and were judged suitable to do so. They might make up 20-25% of the total - but the proportions need to be kept flexible until we see the strength of those who wish to participate. It is in my view essential that an opportunity for participation in this important new broadcasting development should be given to those who do not currently hold ITV franchises. I shall need to be satisfied at the end of the process of selection and negotiation that a suitable consortium has been put together. I shall therefore be inviting the House to confer on me as Home Secretary a power under the Bill to set the seal on the consortium by formally designating it.

This does not mean that I see myself, or my Department, playing a substantial role in the selection of the new element in the consortium which is neither BBC nor franchise-holder. Some mechanism, however, will be needed to invite would-be participants to come forward, to sift them and judge the strength of their claim to participate. Here I propose to seek the help and advice of the IBA, whose experience and background make it an obviously appropriate body for the purpose. The Authority will shortly be inviting interested organisations to get in

touch with it for this purpose. I do, however, stress that this is in no sense a normal franchising operation. What I shall be asking the IBA to do is to offer me their comments on the suitability and financial soundness of private sector participants, and the share of the project which they might appropriately bear.

Nor will potential participants be looking to the IBA for firm financial information about the project upon which to base their judgment whether to participate. That information can only come from the other members of the consortium - with whom, at a second stage, third element participants will have to negotiate.

At this stage, before any approaches are made, it would be a mistake to be too precise about the kind of contribution that independent participants might bring; I would not want to rule anything out in advance. But I hope that some at least would not merely be seeking an investment opportunity but would also have the ability to make some positive contribution in a field such as programme provision, financial management, manufacture or rental of equipment.

Before I move on from independent participation in the project, I should say that I am well aware of the keen interest in the proposals being shown by some of the independent production companies, whose growth has been much stimulated by the outlet for their product provided in the statutory framework for Channel Four. They now seek further outlets. For some of them, possibly in consortium, there may be the option of participation as part of the independent element in the Joint Project. But I recognise that the scale of investment required may make this difficult. They have suggested, as another possibility, an assured place in programme provision for the Joint Project. That is a suggestion with which I have a great deal of sympathy. I do not at this stage have a specific proposal, but I shall be considering how best effect might be given to it, and I invite others who are, or will be, concerned with the Joint Project to do likewise.

I now turn to some other aspects of the Joint Project. Like the BBC project from which, in a sense, it springs, it would use the Unisat satellite system. Some fresh negotiation between the consortium when formed and Unisat will be necessary, for various reasons. For example, it is envisaged that the Joint Project will provide three channels - one films channel and two of mixed programming. That means a change from the proposition being negotiated between the BBC and Unisat.

I envisage that the Joint Project should have a maximum life of ten years from the date of launch; provisions to be added to the Bill will so provide. Ten years is chosen so as to provide an adequate period over which the project can build up an audience, recoup its initial outlay and move towards profit - I have particularly in mind here the needs of the independent element. Whether the project will in fact last ten years must depend upon the arrangements regarding satellite provision which the consortium will make with Unisat.

On other financial matters, I wish to make it clear that no public money whatsoever is being invested in or pledged for the project; nor will it be in the future. The Government is in no sense underwriting any part of the costs. The BBC's share of the cost will not come from the licence fee but from borrowing on the money market, under the extended borrowing powers granted to the Corporation by an amendment of its Royal Charter last year. If the worst came to the worst and the project collapsed, it might be necessary for the Corporation to draw upon licence fee revenue, with my consent, to settle its debts; but the BBC understands that such a use of licence fee funds would not be recouped through a subsequently enhanced fee. Expenditure of the ITV companies participating in the consortium, just as under Part II of the Bill, would not be an offset against the levy payable upon the profits of their terrestrial broadcasting operation.

Turning to the actual programme provision, the House will appreciate that, since neither the BBC nor the IBA as such will be responsible for providing the service, if it is to fit into our pattern of broadcasting arrangement some responsible joint body will have to be brought into being. This will require another addition to the Bill. But I do not intend that the creation of this joint body, to bear responsibility for the transmission of the programmes and for their standards and content, should involve a large new bureaucracy. I envisage that its members will be drawn equally from the BBC's Board of Governors and the members of the IBA. It must have a separate statutory existence, since its responsibilities are not precisely the same as those of either of the existing broadcasting authorities; but nevertheless, I believe that the Board's activities can be viewed as a logical extension of those of both the BBC and the IBA. The standards which the service will be required to meet will be those which would apply to a service under Part II of the Bill.

As I have said, the project involves high risk, and a very substantial investment. The financial projections which the existing participants have carried out show that the venture will have to work hard in its early years to gain audiences and revenue. Substantial losses will have to be borne. Even on favourable assumptions, the project will be making losses, year on year, in the fourth and fifth years of its operation, and will do little more than break even after seven years. Two particular consequences flow from this.

First, while I am anxious that a competitive regime should not be postponed for any longer than is strictly necessary, our objective of establishing a British DBS service on a firm footing could be jeopardised if competition for audiences and revenue had the effect of fragmenting them before they were surely established. Some protection of the project in its early years is therefore justified. In the Government's view, it would be right to postpone bringing Part II of the present Bill into force until three years have elapsed after the launch of the Joint Project's services. At that point the IBA would invite applications under Part II and, provided suitable applicants were forthcoming, would issue contracts; so that during the second part of the life of the Joint Project there could be competition from other DBS channels - in addition, of course, to competition from other cable-borne services and alternative systems of delivery such as video-cassette recorders.

transmission to cable heads using telecoms frequencies

Second, the ITV companies, who have throughout made clear their wish to be associated with DBS, have stressed that they suffer the particular disability of facing the risk of losing overnight their reason for existence, and hence their ability to raise and service capital, not through any commercial failure but through the operation of the franchising system - the present franchises terminate in 1989. Without some relief

from this uncertainty, they have argued, they would not have sufficient financial confidence to engage in a DBS venture beginning in 1987. I have considered this point carefully, and have concluded that I would be justified in making some - but the minimum - departure from the normal arrangements for franchise renewal. I therefore propose to add to the Bill a provision having the effect that for 1989, but on that occasion only, the IBA will not be under an obligation to readvertise ITV contracts, but it will retain a complete discretion as to whether to do so or not. This will preserve the general franchising structure, to which we remain committed, and leave the IBA with full powers to do what is necessary to ensure a satisfactory standard of performance. I stress that it does not give any ITV company any guarantee whatsoever that its franchise will be renewed in 1989; it leaves the IBA free to renew without readvertisement if it considers that the company's level of performance is satisfactory. Alternatively the IBA may readvertise if it chooses.

To sum up this account of my proposals regarding the DBS Joint Project, I believe that the consortium approach offers the most realistic chance of getting a British DBS into action within the next three or four years. If those who are negotiating have come to this same conclusion and wish to take this chance, then I believe that we should not deny them the framework to make it possible. There will be the opportunity of a stake in the first DBS service both for the BBC and for those who might have sought to participate in an independent DBS franchise. It has a limited life; and the competitive regime, which remains our ideal, will not be long delayed. The choice of independent participants will begin very shortly. Work is already in hand on drafting the additions to the Bill which I have listed as being necessary - to provide for the formal designation of the consortium; for the jointing broadcasting body, and its length of life; and for the changed arrangement regarding the

the readvertisement of ITV franchises. By making these provisions we do not, of course, guarantee that a Joint Project will come into being. That will be for the potential participants to determine. What we do is simply to play our part, as Government and Parliament, by creating the framework and opportunity. But it is, of course, our hope that, having done this, the participants will consider that it is an opportunity which should now be taken.

CONFIDENTIAL

SUBJECT

c. Master Set File

bc: Mr. Pascall

10 DOWNING STREET

From the Private Secretary

1 May 1984

Dear Hugh.

DIRECT BROADCASTING BY SATELLITE

The Prime Minister held a meeting today to discuss direct broadcasting by satellite. Present were: the Home Secretary, the Chancellor of the Duchy of Lancaster, the Secretary of State for Trade and Industry, the Chief Secretary, Mr. Jeffrey Sterling, Sir Robert Armstrong, Dr. Nicholson and Mr. Pascall.

The Home Secretary said he had inherited a policy decision which had been taken to encourage a British DBS project on both industrial and broadcasting grounds. It had become apparent that the BBC was over-committed to this project, a view which was shared by its new Chairman. The project was in danger of foundering. If it did, there was a possibility of legal action by the UNISAT satellite consortium against the BBC which the latter could not be sure of winning. The amount at stake was around £50 million. If the Government took no steps to revive the project it could be accused of bad faith, given its role in encouraging it at the start.

In conjunction with the Secretary of State for Trade and Industry and Mr Sterling, he had sought to establish a basis on which the project could go ahead. The essential features of the revised proposals were that initial provision of DBS would be through a joint venture between the BBC and independent television interests using UNISAT satellite to broadcast on three of the UK's available DBS channels. A change to the law would be required removing IBA's obligation to re-advertise the present "terrestrial" contracts at the end of 1989 and substituting a discretion to do so. The details were spelt out in Annex C attached to the joint minute circulated by the two Ministers on 30 March. He did, however, propose one modification. The life-span of the consortium should be set at 10 years (which was closer to the expected life of the satellite), while the fourth and fifth DBS channels would be opened after 3 years.

/ He

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He also proposed that there should be a significant place for non-ITCA companies in the consortium, with the 50% share not going to the BBC perhaps being split 30%:20% between ITCA companies and third parties depending on third party interest. Even these proposals could not guarantee that the project would go ahead but the Government would be seen to have done all that could reasonably be expected of it to encourage the project. Major commercial risks remained; this was far from being a cosy monopoly.

The Home Secretary said he wished to be in a position to announce the Government's position during the second reading of the Cable and Broadcasting Bill which is expected to take place during the week beginning 7 May. He would make it clear that giving IBA the option to re-advertise franchises would not give any company a guarantee on its future position; it would merely reduce the risks.

The Prime Minister said she had serious misgivings about these proposals. Since they were originally conceived, there had been a number of developments which were adverse for the project. It was now unlikely that the French and Germans would fall in behind the C-MAC standard which would cast doubt on whether set manufacturers would tool up for an adequate number of C-MAC sets. The advent of cable and the spread of video recorders had provided much more competition for the DBS market. There were doubts, too, about the wisdom of the UNISAT concept of a hybrid satellite for telecommunications as well as DBS.

She was most reluctant to give assurances to the consortium as this would entrench a monopoly and suppress the development of alternative forms of satellite broadcasting. The proposals did not provide adequate access for independent programme makers and there was every sign that the project would become a white elephant with the risk that the parties would, at some time in the future, turn again to Government for assistance.

The Chancellor of the Duchy of Lancaster shared these doubts. The current proposals were a long way from the original scheme which envisaged competing BBC and ITV DBS channels. Proposals to entrench monopoly and obstruct alternative developments were inconsistent with the Government's philosophy. He also shared doubts about the commercial viability of the project given the companies level of enthusiasm except in exchange for substantial concessions. Finally, he was extremely sceptical about the proposal to give IBA discretion to re-advertise franchises as the ITV companies were seeking this precisely because they knew they would be able to exert pressure on the IBA for the retention of their franchises, particularly if DBS were not thriving.

/ Summing

Summing up the discussion, the Prime Minister said the proposals put forward by the Home Secretary and the Secretary of State for Trade and Industry could be implemented provided a number of conditions were satisfied. It should be made very clear that no extra Government money would be made available; the Government would not underwrite any part of UNISAT's costs; no increase in the licence fee would be granted to the BBC to finance DBS; the Government would not meet the BBC's liabilities if the project collapsed; and expenditure on DBS by ITCA companies could not be offset against the levy. Third party involvement in the joint venture was essential. While the life of the consortium should be set at the economic life of the UNISAT satellite - believed to be around 10 years - the fourth and fifth channels should be activated after three years. It was for consideration whether the IBA should advertise after three years broadcasting by the joint venture or should advertise at a point which would allow broadcasting to begin after three years of the three-channel service. The aim should be to open access at the earliest possible date. In either case it should be a requirement on the IBA to advertise rather than a matter of discretion. For the terrestrial franchises, the IBA should be given discretion rather than an obligation to re-advertise in 1989 but it should be made very clear that this gave no guarantees to the existing companies. The Home Secretary should consider how the scope of the monopoly could be minimised and how the freest possible operation of other forms of satellite broadcasting which did not use the five DBS channels (e.g. transmission to cable heads using telecommunications frequencies) could be encouraged. The greatest possible access should be provided for material from independent programme makers. The possibility of reducing both the BBC's financial commitment and its degree of editorial control should also be considered.

The Prime Minister would be grateful if the Home Secretary could let her see a draft of next week's statement in advance.

I am sending a copy of this letter to Alex Galloway (Chancellor of the Duchy of Lancaster's Office), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office, HM Treasury), Richard Hatfield (Cabinet Office), Mr. Sterling (Special Adviser to the Secretary of State for Trade and Industry) and Dr. Nicholson (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Hugh Taylor, Esq.,
Home Office.

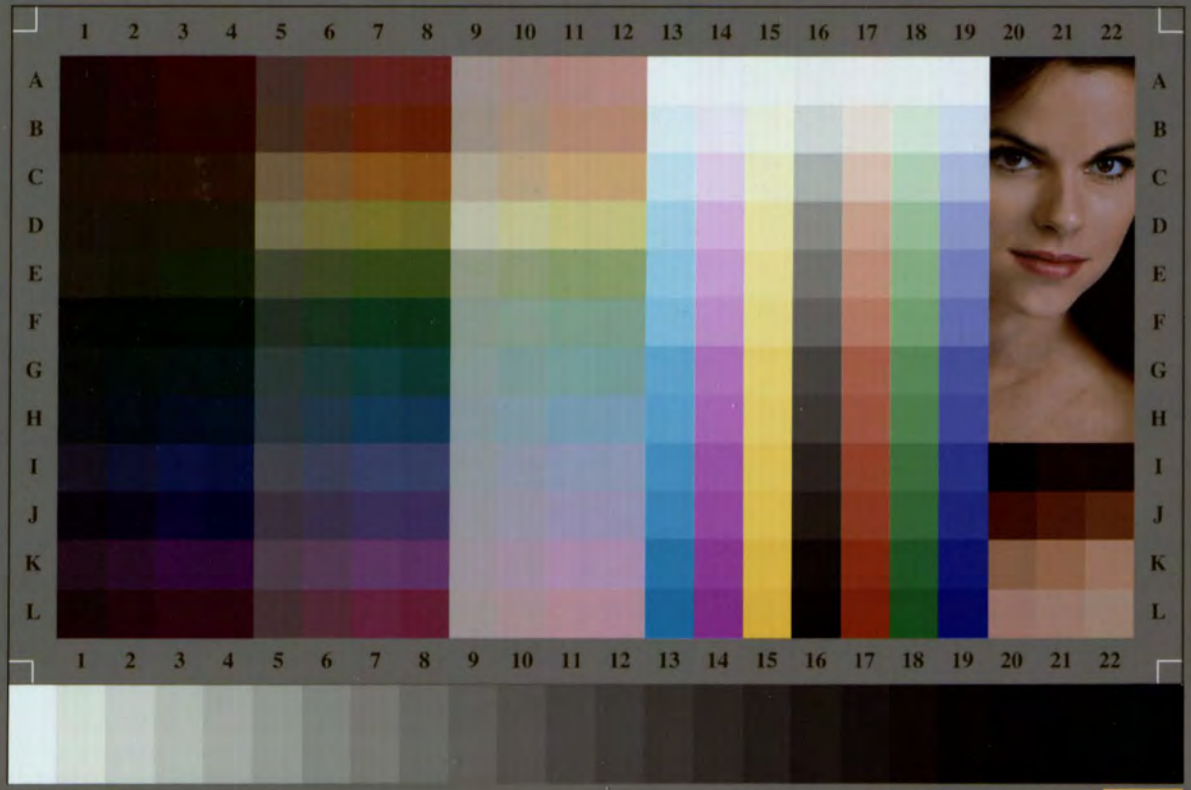
DBS

PART 4 ends:-

M. Buckley to PM (E056) 27.4.84

PART 5 begins:-

AT to Home Office 1.5.84.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