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PRIME MINISTER

BT 12/9

MD

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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 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.

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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.

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.

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